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Gasoline Marketing in the Context of the  
Oil Industry. 1



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# **REPORT**

to

The Honourable A. Russell Patrick, Minister of Industry & Tourism  
Government of Alberta

from

## **The Gasoline Marketing Enquiry Committee**

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*December 1968*





# **GASOLINE MARKETING ENQUIRY**

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## CHAPTER I INTRODUCTION TO THE REPORT

The Committee was instructed to enquire into the marketing of gasoline in Alberta and to consider the relationships between oil companies and service station operators.

The committee accordingly had to gather facts and information relating to:

- (a) markets for gasoline in Alberta,
- (b) the manufacture supply and distribution of gasoline to serve those markets,
- (c) the service-station operator and his retail business,
- (d) the oil companies engaged in marketing.

With some background of information about service station operators and their problems on the one hand, and the oil companies and their practices on the other, the Committee would be better equipped to consider the relationships between oil companies and operators and make findings and recommendations. Gasoline marketing is only one aspect of the integrated oil industry,—it is an essential part of a larger body.

The oil industry is complex, and detailed study is necessary to gain some understanding of it. The aspects of it which the Committee considered are described in the Appendix to this report. The Appendix contains details of the background information and source materials which led the Committee to its conclusions. The statements and recommendations contained in this report are based on the studies described in various chapters of the Appendix. The references in the margin of this report are to chapters, charts, or tables of the Appendix which are the basis for statements contained in this Report. If a question arises about a particular aspect of the report reference may be made to the appropriate chapter of the Appendix for further particulars.

The markets for gasoline in Alberta are outlined in PART 1 of the Appendix. The manufacture, supply and distribution of gasoline to serve those markets is described generally in PART 2.

A study of the oil companies indicates that eight huge international oil companies dominate the world oil industry. A comprehensive report on the world position of seven of these eight oil companies was published in the "Staff Report to the Federal Trade Commission" of the United States prepared in August of 1952 entitled the "International Petroleum Cartel". For convenience of reference the Committee will use the term "cartel" to designate the seven companies described in that report. PART 11 deals with "The World Oil Perspective" and the companies which dominate the industry.

The eight international companies which dominate the world oil industry all operate in Alberta and similarly dominate the oil industry in this province.

Subsidiaries of four of the eight international oil companies are engaged in refining and marketing in Alberta. These four own 100% of the refineries operated in Alberta. The retail outlets "tied" to marketing the products of these four sell 86% of gasoline sold through retail outlets. These four supply the wholesalers who market much of the remaining 14%. This inquiry into the relationship of oil companies and service station operators is therefore very largely the consideration of the relationships between the subsidiaries of four gigantic international oil companies on the one hand, and the Alberta retail dealers of gasoline who are "tied" to marketing of their products on the other hand.

The Committee has considered the service station business and the problems of its operators in several chapters of the report.

Superficially you would expect the business of a service station to be relatively easy to understand, with problems similar to those of many other small businesses. This expectation could hardly be further from the facts when you examine them.

Service stations collectively are the largest customer for gasoline, the oil industry's principal and most expensive product. The dominant underlying factor in the service station business is that the price at which service stations

Chap. 42  
Chap. 44

Chap. 46

Chap. 46  
Table 1  
Chart 12  
Chart 18  
Chart 6  
Chart 7

Chart 3  
Chap. 31(11)

purchase gasoline is absolutely vital to the profits of the integrated oil industry. Accordingly whatever happens in a service station is determined very largely by the pervading self interest of a handful of gigantic international oil companies.

In the relationship between oil company and service station operator, a mere "suggestion" by the oil company appears to have more force or compulsion and is more likely to be observed than a direct order from an employer to an employee.

This "independent business man", the service station operator,

- (a) will purchase merchandise like sweat shirts or charcoal that he doesn't think he can sell and doesn't want to handle, because the oil company "suggests" it;
- (b) he will knowingly incur losses by staying open during hours when he doesn't want to be open, because the oil company "suggests" it;
- (c) he will surrender a lease at a lower rental and "agree" to the substitution of a new lease at a higher rental, because the oil company "suggests" it;
- (d) he will spend his money for oil company promotions that he doesn't want to participate in, not because he believes they increase his particular business, but because the oil company "suggests" it.

The service station operator exercises his "independence", within very narrow limits, to do exactly what his oil company wants him to do. He appears to have a deep seated conviction that if any "independent business man" who operates a service station follows a policy in his station which runs counter to the policy of the oil company to which he is tied, the results will be prompt and disastrous, for the operator.

### **Strange Behavior of Operators**

The Committee encountered many examples of business behavior which differed from our expectations of what an independent business man would do.

A service station operator received requests from his customers for a brand of tires he did not stock. He told us he would like to stock and display this particular brand of tires, but was afraid to do so for fear his oil company landlord would terminate his lease. An independent merchant would normally place the brand preference of his customers ahead of the brand preference of his landlord.

Other service station operators reported the reverse problem. They stated they stocked unprofitable merchandise which their customers didn't particularly want, and which they would prefer not to handle, because the oil company "suggested" that they do so and the oil company advertised the merchandise. What other independent business man stocks unprofitable merchandise because his landlord advertises it?

Most independent merchants take it for granted that they decide what stock they will carry, and how much. Some operators reported that they bought and stocked more merchandise of some types than they wished to carry, because their landlord required them to do so. Their lease contained a clause reading "the lessee shall conduct . . . the service station business . . . in accordance with the instructions of the lessor from time to time . . . with respect to . . . completeness and sufficiency of stock-in-trade carried . . ."

Most independent business men would accept the honor of election to office in their trade association without considering the views of their landlord or their wholesale supplier. Some service station operators stated they refrained from membership or office in the Automotive Retailers' Association because of apprehension that their oil company landlord might terminate their lease or their oil company wholesaler might refuse to supply them with merchandise or that their oil company might otherwise tangibly indicate its disapproval of their participation.

### **Strange Behavior of Oil Companies**

The Committee encountered oil company practices which were equally difficult to understand.

The Committee interviewed the operator of one city service station whose income wasn't enough to pay his rent. His oil company landlord encouraged him to continue to operate the station without paying any rent. However, the operator also required a minimum income on which to live. The oil company offered to help solve this problem and agreed that when his income fell below a designated minimum the oil company would make up the difference, which in many months amounted to more than \$200.00 per month. In most businesses when a tenant can't pay rent he is evicted. In what other business would a landlord pay a tenant, who is unable to pay rent and whose business is losing money, to continue to occupy the landlord's premises.

Chap. 20(7)

The Committee found many cases where an oil company would lease a service station from a developer at a high rental such as \$600.00 per month, and then immediately sublet to a service station operator as lessee at a rental of half that figure or less. Few other landlords so obviously subsidize their tenants.

Table 14

In a city service station, the lessee operator decided to close his business at night because the additional wages he had to pay exceeded his additional sales revenue. The oil company thereupon terminated his lease. In what other business would a landlord who was receiving full rent for his premises terminate the tenancy because he disapproved of his tenant's business hours.

Chap. 20(4)

The oil companies charge a higher price per gallon to their service station dealers who are buying at wholesale for re-sale than they charge to some classes of consumers who purchase a smaller volume than the service station. A service station operator who pays more to the oil company for his gas than a taxi operator does wonders why, — and he obviously can't sell to the taxi operator who buys for less.

Chart 85  
Table 146  
Table 155

The oil company refinery supplies off-brand outlets with gasoline at a price which enables them to retail at a price below the oil company's brand name outlets. The oil company then partially supports its dealers in a price war at the retail marketing level with these off-brand outlets whose source of supply is the refinery of that oil company.

Chart 96  
Chart 97  
Chap. 34(3)

Such business behavior of service station operators, and of oil companies was difficult to understand.

Oil companies are efficiently run and are staffed by the best brains that money can buy. Very little that happens in the oil industry happens by chance. Most things that happen are the intentional result of conscious well thought out policy executed by clever and competent executives.

Accordingly the Committee's task was to determine the facts as to what was happening and what practices contributed to this result.



## CHAPTER II THE SERVICE STATION OPERATOR AND HIS RETAIL BUSINESS

There were just over 3,100 retail gasoline outlets in the province in 1965. These outlets were not all the same type. In their relationships with oil companies, there are significant differences between outlets of various classes. If you classify outlets by brand of gasoline, the "cartel" brands clearly dominate. If you classify outlets by the type of ownership and operation it is clear that the two most significant categories are lessees and owners. There are important distinctions between owners who are financed by the oil companies and owners who have not received financial assistance so both categories are shown. The third method of classifying outlets was by nature of their business opportunity. We found significant differences in the profitability and characteristics of urban stations as compared with highway stations or rural stations. Each gasoline outlet can be classified somewhere in all three classifications as illustrated in Table 3.

We classified service stations as those retail outlets where more than 50% of gross sales are sales of gasoline. Other businesses with some gasoline sales were those retail outlets where less than 50% of total sales are gasoline sales which include such businesses as automobile dealerships, implement dealers, general stores with gasoline sales, etc.

The volume of gasoline sold in a retail outlet is an important indicator of how much money it is possible for that outlet to make. The average gallonage sold per retail outlet is illustrated in Chart 20. Lessee outlets generally sell larger volumes than owned outlets.

### Recruiting and Training

From over 500 interviews with service station operators scattered throughout the province, inspection of their premises, and examination of their books of account, some pretty clear impressions have been left in the minds of the Committee, of conditions in service stations.

When oil companies wish to recruit new lessees they publish advertisements. The impressions created in the minds of the Committee from reading these advertisements which mention profits, independence, and ample training, do not correspond with our impressions of conditions in service stations. Many of the operators recruited lack some qualifications which are practically vital to success in the business. To some extent this lack of qualification could be cured by training. The oil companies make no serious attempt to offer training on a useful scale. 89% of all operators, including 79% of lessees, stated they had received no formal training from the oil company.

### Hours and Earnings

The average service station operator works in excess of 70 hours per week. On the average he earns a very low rate of pay, \$1.72 per hour, which is sometimes less than what he pays his employees. The average annual income of service station operators is approximately \$6,500 per year. Lessees terminate at the rate of nearly one per business day.

The typical service station lessee feels restricted and frustrated by numerous oil company ties which limit his freedom and judgement in practically every business decision he expected to be free to make. He abandons the service station business after approximately five years, hopeless of being able to earn a reasonable income, and having lost part or all of his investment.

### Rent

There are 1,200 lessees of service stations in the province, being 38% of the number of retail outlets, but they sell approximately 62% of the gasoline sold at retail.

A frequent complaint from service station lessees was that they had worked extremely hard to increase the gallonage of their station with a view to improving the operator's earnings, only to find that an unexpected rental increase by the oil company deprived the operator of the fruits of his efforts. We computed the average rent paid by gallonage range which clearly indicates that rentals increase as gallonage increases. However, in comparing the occupancy costs of owners with the occupancy costs of lessees, it soon became

apparent that lessees were receiving a substantial rental subsidy. We calculated this rental subsidy to be equivalent to \$2,700 per outlet. Expressed in cents per gallon of sales of the outlet, the rental subsidy on the over-all average was nearly 2c per gallon, the subsidy being higher than this in the lower gallonage ranges and lower in the higher gallonage ranges.

When a lessee operator's profit from handling gasoline is only approximately 1c per gallon after receiving the benefit of his rental subsidy, it is apparent why owned outlets which do not receive this subsidy are unable to survive.

**Franchise Agreement**

In order to obtain a supply of gasoline, every operator, whether lessee or owner, enters into a franchise agreement under which he agrees to purchase his petroleum products exclusively from one company. In many other businesses where a purchaser undertakes to buy one product exclusively he is given an exclusive territory in return. This is not the case in the oil industry. An operator's business can be ruined by new stations selling the same brand being built next door or across the street. The operator's long term exclusive buying contract prevents him from protecting himself by selling another brand.

**T.B.A.**

In addition to selling gasoline, service stations sell tires, batteries, automotive accessories, and other merchandise, referred to as T.B.A.

In a service station, depending upon the classification of the station, from 10% to 35% of its dollar volume of business comes from T.B.A. sales. Small percentage increases in the ratio of T.B.A. sales have a significant impact on the net earnings of the dealer. Anything which restricts the freedom of an operator in his merchandising of T.B.A. can have a significant effect on the operator's opportunity for profit.

Most oil companies employ a variety of contract ties which have the effect, directly or indirectly, of coercing the dealer to buy T.B.A. products supplied by the oil company or from suppliers "suggested" by the oil company. These practices are familiarly known as "directed buying" or "full-line forcing".

When its dealers are tied in this manner the oil company enters into a "market access agreement" with one or more manufacturers who supply tires, batteries, accessories, etc. Under such an agreement, the manufacturer pays to the oil company a commission or percentage on the sales of its products to the service station operators. Such commissions are usually about 10%.

The Restrictive Trade Practices Commission in Ottawa made a study of this problem and published a report over 600 pages long relating to this subject in 1962. It found that the practice of trading exclusively in the products distributed or "suggested" by the supplying oil company was more pronounced when there was a lessee relationship than when the dealer owned his premises. It was also more pronounced with owners receiving financial assistance as compared with owners who had not borrowed from the oil company. In other words, the more ties which existed, the more effective the "suggestions" of the oil company became.

In Alberta, in the case of tires and tubes, 94% of purchases by lessees were from the company "suggested" by the oil company whereas owners financed only purchased 67% of their requirements, and independent owners only purchased 44% of their requirements from the "suggested" supplier. A similar situation existed with respect to batteries, anti-freeze, and accessories and other merchandise as illustrated by Charts 26 to 31 inclusive.

The lengthy proceedings by the Restrictive Trade Practices Commission in Canada, by the Monopolies Commission in Great Britain, in the West Coast Oil Case in California and in other legal proceedings in the United States, all came to the conclusion that oil company practices of directed buying and full-line forcing were not in the public interest.

**Advertising**

The operator of a service station is bound by a number of contracts which restrict his right to advertise, and which compel him to advertise oil company products.

Chart 24

Chart 25

Table 26

Table 27

Chap. 13(7)

Table 31

Chap. 13(9)

Chap. 16(2)



Frequently oil companies advertise their products by special advertising promotions involving prizes and premiums. In some of these promotions a very large part of the total cost is borne by service station operators collectively. Some of these promotions increase the operator's costs by 1c or 2c per gallon which is sufficient to eliminate his entire profit on gasoline. In the United States, some states now have laws which prohibit the giving of chances or the offering of prizes by gasoline stations.

### **Economics of Service Station Operations**

Service station operators complain of oil company practices which have the effect of either increasing the operator's costs or decreasing the operator's profits. It is necessary to be familiar with the economics of service station operations in order to determine the significance of such practices. The business conducted by a service station can be classified broadly into three general divisions which differ greatly in profitability. These three divisions are:

- (a) the gasoline sales division;
- (b) the merchandise sales division;
- (c) the repair division.

In a service station, gasoline sales account for from 60% to 90% of the total dollar volume of sales, and the other two divisions account for from 10% to 40% of the dollar volume of sales. Between the three divisions, the gasoline sales division is least profitable per dollar of sales, the repair division is most profitable per dollar of sales, and the merchandise division lies somewhere between the other two.

The gross profit on 67,500 gallons of gasoline is required to pay the annual cost of a pump attendant. In 1965, 1,610 outlets, being 54% of all gasoline outlets in the province, sold less than 50,000 gallons per year. And 2,139 outlets or 72% of all outlets sold less than 100,000 gallons per year.

If the mechanic leaves his service bay to help on the pumps during busy hours, his wage is higher than the pump attendant's so more gas has to be sold to recover the cost of his time at the pumps. Based on data obtained from service station questionnaires, we calculated the average cost of selling a gallon of gasoline for various types of outlets. These costs were very close to the service station markup in most cases. In some cases the cost exceeds the markup and gasoline is being sold at a loss. By comparison, the repair division produces a substantial profit per man hour. The number of cars per hour served by a service station doubles on the weekends. An efficient pump attendant who is steadily busy can service 12 cars per hour. If he is not so busy, and only 6 cars per hour require servicing, the labor cost per gallon is doubled.

In a station which is open 12 hours a day, 6 cars per hour produce an annual gallonage of 150,000 gallons, and 12 cars per hour produce an annual gallonage of 300,000 gallons. There are accordingly substantial economies in wage costs per gallon and capital costs per gallon in service stations with larger gallonage.

### **Model Service Stations**

In Chapter 22, the Committee illustrates service station costs and revenues in detail using model service stations. Two sets of these calculations are based on figures obtained from service station operators and the other two sets are based on figures obtained from oil companies. Some costs, such as labor, can readily be allocated to the division of the business in which they were incurred. Other overhead costs, such as rent and utilities, have to be allocated between divisions on a more or less arbitrary basis. Gasoline sales are large but produce a relatively small part of the profit. Repair sales are relatively small but produce a substantial proportion of the profit. In a service station business where repairs amount to only 18% of the total volume, this division produces 40% of the total profit.

The model stations are based on an annual gallonage of 200,000 gallons, which only 10% of all outlets in the province attain. Such a station would have lower costs per gallon for labor and for overhead than most outlets in the province, and the operator's profit in such circumstances is only 1½c per



gallon. In 14 service stations owned by oil companies and operated by their employees, 6 of them each sold less than 200,000 gallons per year and all 6 operated at a loss.

In Calgary, 70% of lessee operated outlets and 85% of owned outlets sold less than 200,000 gallons per year. In Edmonton, 73% of leased outlets and 84% of owned outlets sold less than 200,000 gallons per year. The oversupply of service stations is so great that in Alberta as a whole, the average gallonage for all outlets is 80,000 gallons.

**Mark-up and Profit**

In a service station there is a difference between the mark-up on gasoline and the profit on gasoline. The mark-up is usually about 8c per gallon and the profit is about 1c per gallon. In a service station selling 100,000 gallons per year, the gross mark-up on gasoline would produce \$8,000 per year. Out of this all salaries have to be paid, as well as all other expenses. The profit produced at 1c per gallon is \$800.00 per year. 72% of all retail gasoline outlets in the province sell less than 100,000 gallons per year. Outlets operated by lessees average between 130,000 and 140,000 gallons per year. Outlets operated by owners average approximately 46,000 gallons per year, and those that have oil company financial assistance average more than double the volume of those that do not.

Fortunately, an operator does not have to depend on gasoline sales alone for his income. The other items of his business account for a smaller dollar volume of sales but they produce as much or more profit than gasoline.

Although only 10% of all outlets in the province sell 200,000 gallons per year or more, the Committee used a 200,000 gallon station for its theoretical economic model. Based on a volume of sales that only 10% of the stations in the province achieve, the cost per gallon, of labor and capital, is lower than in many stations. In such a station, the operator's profit on gasoline is 1½c per gallon. However 90% of all outlets in the province have lower gallonages and higher costs per gallon so the operator's profit is usually less. Of the service stations owned by oil companies and operated by their employees, all of them which had a gallonage less than 200,000 gallons per year lost money.

Having regard to these facts, it should not be surprising that service stations with an annual gallonage of up to 100,000 gallons experienced terminations at the rate of 26% per year, and that those between 100,000 and 200,000 gallons experience lessee terminations at the rate of 22% per year. The inevitable result when an oil company induces a man to lease a service station and to invest \$4,000 in a business which has a gallonage of less than 100,000 per year, is another case history such as "John X" or John Doe".

The result is bad enough when the lessee loses part or all of his \$4,000 investment. However, in some cases to keep its station open the oil company extends financing to the unfortunate lessee and he loses more money than he had to begin with. The case of Mr. "A" entitled "Collection of Debt from Former Operator" illustrates what can happen to the operator in such circumstances.

For hundreds of service station operators, their businesses are either un-economic or marginal. An arbitrary act by an oil company which only slightly increases the operator's costs or slightly decreases his profits, can convert a marginal business to one which is losing money. If an oil company compels an operator to extend his hours of opening, the additional wage cost may cause him to lose money. If an oil company institutes an advertising promotion and requires its operators to buy merchandise or tickets for distribution to motorists, which increases the operator's cost by 1c a gallon, he may lose money on every gallon sold.

Many service station operators have an attitude of deep pessimism, believing that nothing can or will be done to improve their plight. They are so impressed with the futility of trying to change oil company practices that they are doubtful whether even government can give them meaningful assistance. They accept and conform to oil company requirements because of their conviction that it is hopeless to do otherwise.

Chart 48

Table 50

Table 103

Table 102

Table 104

Table 150

Chart 48

Table 104

Chart 20

Chart 21

Table 104

Chart 20

Chart 45

Chart 46

Table 104

Chart 45

Chart 48

Table 50

Table 61

Chap. 24(9)

Chap. 20(6)

### CHAPTER III THE OIL COMPANIES ENGAGED IN MARKETING

Who are the oil companies with whom service station dealers in Alberta have to deal?

Throughout the world the oil industry comprises a great number of companies, differing enormously in size and scope of operations, which we classified into three broad groups of companies.

Eight colossal oil companies by reason of their gigantic world wide operations tower high above all the rest. Seven of these eight companies were referred to as the "International Petroleum Cartel" in the "Report to the Federal Trade Commission by its Staff" in the United States in 1952 and for convenience this report refers to these seven companies as the "cartel".

Some appreciation of the economic power these seven companies wield may be gained by comparing their revenues with those of governments. The gross revenue of the "cartel" companies is approximately 100 times larger than the revenue of Alberta.

Historically the two major oil exporting areas in the world have been the Middle East and the Caribbean. To a very large extent the "cartel" companies control Middle East oil. Most of the oil of the Caribbean countries is similarly controlled by "cartel" companies.

The two historic export sources, the Middle East and the Caribbean, used to account for practically all the world's export crude. By 1965 the Middle East still had the world's largest reserves of oil.

In 1949 outside of the United States, (which has no oil for export) Mexico, Russia and Russian controlled countries, the seven "cartel" companies controlled 92% of world reserves of oil and 88% of world oil production. The "cartel" share of world production and the countries from which it is exported, and the volume owned by each company is shown in Chart 134.

The "cartel" companies are closely interwoven in joint ventures such as the Iranian Consortium in which all of them are partners, the Iraq Petroleum Co. Ltd. in which five of them each hold a percentage interest, etc. They also engage in refining and marketing joint ventures where each has a share of a common company.

In much the same way that the "cartel" companies control exportable oil, they have a dominant position in the world wide marketing of gasoline.

In the Preface to the Federal Trade Commission Report the following statements appear:

"The Senate Small Business Committee has a profound and abiding interest in the effect of monopolistic and restrictive activities on the survival of independent competitive enterprise. Such activities are not always regional or even national in scope. When . . . the fate of competitive free enterprise at home is inextricably linked with the pattern of business operations abroad, this Committee will not hesitate to extend its investigations so as to determine the exact nature of these operations."

"With reference to the alleged Oil Cartel, it has been the aim of this Committee to learn (1) whether or not five major integrated American oil companies have joined two foreign companies in a series of international monopoly agreements; (2) whether or not the structure of international oil prices has imposed an excessive burden on the economies of friendly nations, . . ."

The Federal Trade Commission of the United States found that for many years the "cartel" companies had agreements applicable in various countries under which they agreed to division of the market, respect for each other's customers, and fixing prices, discounts and other selling conditions. The "cartel" companies have followed a pricing system throughout the world for both crude oil and refined products which has tended to eliminate differences in delivered prices as between sellers, so that at any given destination, the selection of one seller over another is a matter of complete indifference to the buyer insofar as price is concerned.

The operations of the "cartel" within any country are only a small fraction of their international operations.

A "cartel" company carrying on world wide operations looks on policies from an international viewpoint and determines what is best for the company

from the point of view of all of its operations in many countries. The policies of a "cartel" subsidiary operating within a particular nation are obviously influenced by what is best for the company as a whole.

The "cartel" companies which dominate the world oil industry usually dominate the national oil industry of any particular country and have a substantial influence on it.

The eight gigantic international oil companies all operate in Canada. A thumbnail sketch of each of these eight companies and its operations in Canada is contained in Chapter 45. In Alberta the subsidiaries of four "cartel" companies carry on fully integrated operations, being engaged in producing, refining and marketing. The remaining four international companies also operate in Alberta, but primarily in producing.

The subsidiaries of the four "cartel" companies which engage in marketing in Alberta, own all of the refineries in the province, have tied 88% of the service stations in the province to sell their gasoline exclusively and manufacture the gasoline sold by most of the off-brand outlets in the province.

Although "cartel" subsidiaries have vast direct operations, their influence on the oil industry in Alberta extends much further.

Of the retail outlets in Alberta 2,761 sell the brand name products of "cartel" companies, Pacific and Husky which have refining facilities outside the province account for 159 outlets, the department stores have 8 outlets and various off-branders have 206 outlets. The marketing of gasoline in Alberta is clearly dominated by "cartel" brand gasoline, and by "cartel" brand retail outlets. Other companies engaged in marketing conform to the pricing and to the marketing pattern fixed by the "cartel" companies.

The hundreds of operators of retail outlets in the province are largely dealing with subsidiaries of four gigantic international oil companies, only a tiny fraction of whose operations are conducted in Alberta.

The marketing practices of these four companies, which are fairly uniform world wide, have been investigated in many countries, and some of their marketing practices have been restricted or prohibited by various governments. These four companies still follow practices and policies in Alberta which have resulted in investigations and brought censure and prohibitions in other countries.

Chart 136

Chap. 45

Chart 137  
to Chart 144

Chart 145

Chart 146

Chart 147

Chart 148

Chart 149

Chart 12

Chart 18

Chart 19

Chap. 51



CHAPTER IV SYMPTOMS OF SERVICE STATION SICKNESS

- In the service station business there are two obvious symptoms of sickness
1. extinction of independent owners,
  2. the excessive rate of turnover of lessees.

Extinction of Independent Owners

Privately owned service stations are being forced out of business. In Canada 3,476 privately owned service stations ceased to operate while during the same period oil companies increased the number of outlets over which they had a substantial measure of control by 7,126 additional outlets. In Alberta during a ten year period while five "cartel" subsidiaries increased their tied retail outlets from 1,381 to 2,757 the retail outlets of other marketers declined from 1,547 to 387. During a fifteen year period the volume sold by owned outlets declined from 71% of the market to 45% of the market. During a fifteen year period the number of retail outlets "tied" to "cartel" subsidiaries increased from 47% to 88% and the percentage of gasoline sold through such outlets increased from 55% to 87%.

The trend to extinction of the privately owned service station is matched by the trend toward elimination of independent wholesalers. In 1938 "cartel" subsidiaries supplied at wholesale 38% of the market whereas in 1965 they supplied 88% of the market.

Although a large number of privately owned retail gasoline outlets still exist, most of these fall in the classification of other businesses with some gasoline sales such as implement dealers, automobile dealers, general stores, etc. In these outlets the main source of income is some other business, which is supplemented by some gasoline sales. There are accordingly large numbers of owners each selling a low volume, whereas the high volume outlets are controlled by the oil companies and operated by lessees. The privately owned service station has practically been driven out of business.

Turnover of Lessees

The spacious, expensive looking service station with its well maintained appearance conveys an impression of prosperity. In many cases this gives an impression of profitability of the operator's business which is completely misleading.

299 lessees terminated in 1965, many of whom were business failures or anticipated certain business failure. The rate of lessee terminations was approximately 23% in 1965, and the five year average rate of turnover is 21.3% per year. In 1965 alone, out of one group of 156 stations, 23 of them had two terminations and 6 of them terminated 3 times. In a five year period in 348 stations where terminations occurred, 78 of those stations had two terminations, 48 of them had 3 terminations, and 30 of them had four or more terminations.

In stations selling 100,000 gallons of gasoline per year or less, the 1965 average rate of termination is 26% per year, and in stations selling from 100,000 to 200,000 gallons per year the termination rate drops to 22% per year.

In 1965 84% of terminations occurred in stations selling less than 200,000 gallons. In the five year period from 1961 to 1965 87% of terminations occurred in stations selling less than 200,000 gallons. Of these 48% of all terminations occurred in stations under 100,000 gallons, and 39% of all terminations occurred in stations between 100,000 and 200,000 gallons being 87% of all terminations.

We interviewed 210 operators and 37% of them had been in their stations two years or less. The mean of their years of experience was 4.5 years per operator.

The average gallonage per outlet for all outlets in the province was 80,681 gallons, the average per leased outlet was 138,563 gallons per year, and the average per owned outlet 45,821 gallons per year. An ordinary service station with 4 pumps is capable of handling 400,000 gallons per year.

Most lessees who terminate have lost part of their initial investment and have not received adequate payment for their labor. The Committee estimated that terminating operators have contributed \$1,200,000 per year in cash or labor for the purpose of keeping service stations owned by oil companies open for the sale of their brand name products to the public.

Chap. 24(3)

In one Edmonton station which terminated six times in six years, we interviewed each of the former operators and their collective loss of monies invested totalled \$20,100.

Table 89

The rate of lessee termination in 1965 was almost one per business day.

Although these statistics are shocking enough they are inadequate to convey the true picture of what is happening in human terms. Case histories such as those of "John X" and "John Doe", as reported by one of our interviewers, help to illustrate the disappointment, worry, and family tragedy associated with many terminations. The case history of Mr. "A" illustrates how termination may leave a legacy of debt to perpetuate problems after the service station has been given up.

Chap. 24(9)

Chap. 20(6)

Causes of Service Station Failure

Due to differences in the relationships with oil companies, of owners as compared with lessees, there are some differences between the causes of extinction of independent owners, and the causes of turnover of lessees. These causes will be dealt with separately for owners and for lessees.

1. Independent owners of service stations are being driven out of business because of

- (a) the building of **too many stations** by oil companies, — there are not enough gallons per outlet when the available gallonage is divided between too many outlets;
- (b) the system of **exclusive buying**, — which deprives the owner of freedom to exercise his business judgment so that the owner loses profit opportunities;
- (c) the **rental subsidy** to lessees, — which gives lessees an unfair competitive advantage over owners;
- (d) **unfair pricing practices** of the marketing division such as requiring owners to pay part of the cost of building service stations used by lessees who are their competitors;
- (e) the **price squeeze** on the operator, caused by oil companies extracting as much money from the operator as they can in as many ways as they can, while at the same time forcing down the operator's mark-up.

Chap. 25

Chap. 13(9)

Chart 24  
Chart 25

Chap. 31(6)

Chap. 33(7)  
Chap. 34

2. The excessive rate of turnover of lessees is caused by some of the same oil company policies which cause the extinction of independent owners, namely—

- (a) oil companies build **too many stations**, — there are not enough gallons per outlet when the available gallonage is divided between too many outlets;
- (b) the system of **exclusive buying**, — which deprives the lessee of freedom to exercise his business judgment so that the lessee loses profit opportunities, and the ties on lessees being more complete and more effective than upon owners, they are accordingly more burdensome;
- (c) the **price squeeze** on the operator.

Let us examine these five contributing causes to failure of independents and turnover of lessees.

1. Too Many Service Stations

The complaint of too many service stations is heard wherever the international oil companies do business, which is practically everywhere in the world. In the United Kingdom, France, and Italy restrictions on numbers of service stations are now being enforced, and in British Columbia the Royal Commission recommended such restrictions.

Chap. 25(1)



How many service stations constitutes too many is a difficult thing to measure. In the views of Alberta service station operators there are between two times and four times as many stations as required.

We asked the oil companies for the minimum gallonage which would justify the building of a service station. Based on weighted averages, 96% of existing owned outlets, 88% of all outlets and 78% of leased outlets have sales below the stated minimum gallonage.

Service stations are capable of selling annually 100,000 gallons per hose or 100,000 gallons per pump. An ordinary service station with four pumps is capable of selling 400,000 gallons per year. If stations in a community averaged close to this figure, up to two-thirds of the total number of stations now operating could be closed. In Edmonton and Calgary even if all outlets selling less than 150,000 gallons were closed, this would result in the closure of 226 Edmonton stations and 204 Calgary stations and the remainder could easily accommodate the additional gallons.

One major oil company advised us that each ten thousand of population can reasonably support a group of six outlets representing six brands. Applying this standard Edmonton could reduce the number of its outlets from 362 to 233 and Calgary could reduce its outlets from 369 to 196.

If there are too many stations so that stations capable of handling 400,000 gallons per year only sell 100,000 gallons per year, then the capital cost per gallon is four times what it should be. If a pump attendant who could service 12 cars per hour is not busy and has idle waiting time because only 4 cars per hour come in, cost of labor per gallon is three times what it should be. The price paid by the motorist for gasoline reflects the cost of these wasteful marketing practices.

This is one result of too many service stations with too little volume per station.

The system of tied outlets is an important cause of overbuilding. A tied service station is obligated to buy exclusively from one oil company. Accordingly an oil company which wants to market in a community, if it is to sell any gallons at all, must have a service station. If the motorists in a community required 400,000 gallons of gasoline per year, one service station could adequately serve their requirements. However, if five oil companies each decide they want their products to be available in that community, then if each outlet is tied there has to be five retail outlets, each of which would have an average volume of 80,000 gallons. If one station could handle five different brands from five different pumps, the saving would be equal to the cost of building four service stations. The principal obstacle to this is the oil company contract which requires each purchaser to buy his entire requirements exclusively from that oil company.

The present marketing system for gasoline is based on tied retail outlets. As a rough generalization a company's market share is approximately proportional to the number of outlets it can succeed in tying.

The excessive numbers of service stations are the result of each company wanting representation in the market represented by each community.

With tied outlets, the only way to acquire sales is to acquire tied outlets.

## 2. Exclusive Buying

When a retail outlet is tied to buy exclusively the products of one company, the operator loses profit opportunities because he is unable to take advantage of lower prices offered by others. An operator who had the opportunity to buy gasoline for a price that was cheaper by  $2\frac{1}{2}$ c to 3c per gallon was prevented from doing so by the exclusive buying contract by which he was tied. An operator whose gasoline volume was cut in half due to the opening of a new station just beside him which sold the same brand had to suffer the loss of volume and could not change to another brand because he was tied by an exclusive buying contract. In selling tires, batteries, accessories and other



merchandise the operators have many complaints about restriction of their profit opportunities because they are tied to a single supplier by an exclusive buying contract.

In legal proceedings in the United States and in investigations in Canada, England and the United States exclusive buying ties have been condemned or prohibited because they were cost-increasing and not in the public interest.

3. Rental Subsidies to Lessees

When too many outlets exist, there are too few gallons for each, and all become marginal from an economic standpoint. Too many outlets affects owned outlets and leased outlets in the same way.

However, if leased outlets receive a rental subsidy, this may make the difference between success and failure, and enable leased outlets to survive when owned outlets fail.

Where the oil company obtains a service station under a head lease and then sublets to an operator, it is clear that the lessee operator receives a subsidy which can be easily determined in dollars per year or in cents per gallon. In lessee stations with low gallonages the rental subsidy exceeds the dollars of rent collected from the operator whereas in stations with high gallonages the subsidy is less than the dollars of rent collected. The rental subsidy expressed in cents per gallon is higher in the low volume outlets than it is in the high volume outlets. It is logical that the low gallonage outlets which are having the greatest struggle to survive should obtain the greatest assistance.

Oil companies own stations which they rent to their operators on the same basis as the stations they rent from another landlord as described above. In such cases it is a little more difficult to document the dollar amount of the subsidy but we are satisfied that the same subsidy exists. Our calculations indicated that the average rental subsidy for all companies is approximately 2.95c per gallon.

If you compare an independent outlet owned privately and an outlet leased from an oil company which have the same gallonage and the same expenses other than rent or occupancy costs, the owner could be operating at a loss of 1½c per gallon but the subsidy would enable the lessee to operate at a profit of 1½c per gallon.

The rental subsidy helps to maintain inefficient low volume stations in business which can't afford to pay an economic rent, and they reduce the volume available for other outlets. This is an important factor in driving privately owned outlets out of business. It also reduces the gallonage available for other lessees with marginal businesses and thereby contributes to lessee turnover.

Rental subsidies would not exist apart from the system of tied outlets. An oil company as landlord would not subsidize a lessee who was not tied to sell the products of the oil company exclusively. If the tenant were free to sell any products he chose, the landlord's income would have to come from rental from the property alone and not from profit on the sale of products. One of the purposes of subsidized rentals is to assist the survival of the tenant's business, but the oil company has no interest in this unless the tenant is selling the oil company's products exclusively.

4. Unfair Pricing Practices

The marketing division of an oil company sells to retailers at a price which enables the marketing division to recover its costs of distribution and sales and to earn a profit on its marketing operations. It sells to retailers at a posted dealer tank wagon price which is uniform to all operators, whether private owners or oil company lessees.

However, retail costs for the provision of service stations owned by the oil company and operated by lessees are included in marketing division costs and paid for in the wholesale price of gasoline. This is discriminatory in that it relieves lessees from some expenses in connection with their retail premises,

Chap. 13(2)

Chap. 13(9)

Table 14

Table 15

Chart 24

Table 16

Chart 25

Table 17

Table 21

Table 138

Chart 83

and it burdens owners who bear all the costs of their own premises with some of the costs of providing premises for lessees by including such costs in the wholesale price of gasoline. The average current expenditure of the oil company marketing divisions for service stations was equivalent to 1.87c per gallon which is the largest single item of cost of the marketing division. In other words, every time an independent operator of a privately owned service station buys a gallon of gas, 1.87c of his wholesale purchase price helps to pay for lessee service stations with which he competes.

Table 158

Table 147

Table 148

**5. The Price Squeeze on the Operator**

The profits of the oil industry are largely dependent on the sale price of gasoline. Gasoline is 52% of refinery output and is 59% of total refinery dollar realization. Of the main classes of products produced by refining, gasolines realize the highest price per gallon. Various customers buy gasoline at different prices, but the tied retail outlet pays the highest price of any gasoline customer.

Chap. 33(7)

Accordingly the oil company's profits are vitally affected by the amount they can obtain from the service station operator either for gasoline or for rent or for some other product or service. There are at least eight different ways by which oil companies extract money from the service station business.

Chap. 34

At the same time the oil companies use at least seven practices which have the effect of forcing down the service station operator's mark-up.

Whenever the oil company improves its realization from the operator, this adds to the operator's costs, while at the same time other pressures are exerted on him to keep his mark-up down. This places the operator under overwhelming economic pressure and contributes to business failures or terminations.

The fact that the operator is tied to buy exclusively from the oil company enables many of these economic pressures to be exerted. The ties exist to enable the oil company to exert such pressures and the existence of the ties makes it impossible for the operator to purchase elsewhere, when he is squeezed by these pressures.

**Conclusions**

The two symptoms of sickness in the service station business are—

- (a) extinction of independent owners; and
- (b) the excessive rate of turnover of lessees.

Five of the contributing causes to the sickness of service stations are—

- (a) too many service stations,
- (b) exclusive buying,
- (c) rental subsidies to lessees,
- (d) unfair pricing practices,
- (e) the price squeeze on the operator.

Each of these five contributing causes is related to or dependent upon the system of tied outlets. If the practice of tying a service station to a single oil company was to terminate, this would almost automatically eliminate the five principal causes which have led to the extinction of independent owners and the excessive rate of turnover of lessees.

## CHAPTER V PRICE

### (1) The Gasoline Price Structure

#### Cost and Price in Cents per Gallon

The oil industry is accustomed to describing its activities in millions of barrels, billions of cubic feet, and astronomical numbers of dollars. The Committee, being desirous of reducing these numbers to units of measure it could understand, decided to express revenues, costs, expenses, and all similar cost or price concepts in cents per gallon.

Included in the cost of a gallon of gasoline to the motorist are all the costs of exploration, development, production, transportation, refining, marketing, and retailing. The oil industry is vertically integrated, so divisions of a single company engage in each of these activities, and the sum of the costs of all divisions enters into the cost of a gallon of gasoline.

#### Cost of Crude Oil

"Oilweek" calculated the cost of one barrel of oil (including exploration, development drilling, land costs, producing facilities, royalties and production costs) to be \$1.04 per barrel. By method "A" we calculated the cost of crude oil at \$1.07 per barrel. By method "B" we calculated the cost of crude oil to be \$1.13 per barrel.

In any case the cost of crude oil in Alberta including all the costs of exploration, development, land costs and production, is approximately 3c per gallon.

#### Cost of Refining

The refining of crude oil produces three broad categories of products, namely:

- (a) gasolines,
- (b) middle distillates,
- (c) heavy fuel oils and other products.

More gasoline is produced than any other category of product. A 20,000 barrel per day conventional refinery operating at capacity has a refining cost of approximately 2c per gallon. Although the cost of refining varies from refinery to refinery, and also within a single refinery, depending upon what is being produced, the cost of refining a gallon in Alberta would probably range from something less than 2c per gallon to slightly over 3c per gallon.

If crude oil which costs approximately 3c per gallon is "sold" for approximately 8c per gallon in a transaction between the producing division and the refining division of the same company, the "cost" of gasoline produced from the refinery varies slightly depending on what can be realized from other products. The "cost" of refined gasoline might vary in the approximate range from 10½c per gallon to 11½c per gallon. In some parts of the world refined motor gasolines are sold by refineries for considerably lower prices than these. In Alberta refineries reported sales of refined gasoline at prices ranging upwards from 10½c per gallon.

When the refining division of an integrated company "sells" gasoline to its marketing division the average price is approximately 11c per gallon, excluding Federal Sales Tax which was 1.9c per gallon additional.

#### Cost of Marketing

The marketing division performs the wholesaling function of selling and distributing refined petroleum products. When it is considered that marketing adds about 7c per gallon to the price of gasoline, as compared with total costs of exploration and production of approximately 3c and costs of refining of approximately 3c it is apparent that marketing costs are significant.

Basic marketing costs incurred by the oil companies can be broken down into six items. The cost of these items totals a little over 5c per gallon if all costs of the marketing division for all products that it markets are charged to gasoline alone. By gallonage, gasoline is 52% of refined production; and by

Chap. 28(2)

Table 122

Table 125

Chart 69

Chap. 30(1)

Chart 75

Table 158

Table 131

Table 132

Chap. 30(3)

Table 134

Table 135

Chap. 30(5)

Chap. 31(9)

Chart 83



Table 158

dollars realized from sales, gasoline accounts for 59% of dollar realization. By either of these standards gasoline should be charged with 50% to 60% of total marketing division costs which would be approximately 3c per gallon.

Marketing Division Prices

Chap. 31(9)

The marketing division sells to service stations at 19.8c per gallon which gives the marketing division a mark-up of 6.9c per gallon. This is a genuine sale, where the oil industry gives up ownership of the gasoline.

Chap. 31(10)

The marketing division uses three posted prices, one for service stations, one for farmers, and one for commercial consumers. The posted price for service stations at refinery supply points such as Calgary and Edmonton during 1965 was 19.8c per gallon. Excluding Federal Sales Tax the price was 17.9c.

Table 142

Chart 84

The posted prices for farm consumers and commercial industrial consumers are each 1½c per gallon higher than the posted price for service stations. However, service stations receive no discounts whereas farm consumers may receive discounts up to 6c per gallon below the service station cost and commercial industrial consumers may receive discounts up to 9c per gallon below the service station cost. Nearly 20% of sales to farm consumers are made for less than the price paid by service station operators. Seventy percent of sales to commercial or industrial consumers are made for less than the price paid by service station operators.

Chart 85

Table 145

Table 146

Chap. 31(11)

Table 147

Table 148

Excluding Federal Sales Tax the marketing division realizes

(a) 17.9c per gallon of automotive sales

(b) 16.97c per gallon of farm sales

(c) 13.96c per gallon of commercial sales.

It is apparent that the tied retail outlets of service station operators pay the highest price per gallon of any gasoline customer.

The Cost of Retailing

The 1965 retail price of gasoline at 39.9c per gallon was made up of three parts—

(a) the oil company's part 17.9c

(b) the Federal and Provincial tax part 13.9c

(c) the retailer's part 8.1c.

Table 149

Chart 88

Table 150

Chart 92

Table 36

Chart 35

Chart 46

Chart 48

The relationships of these three parts have not varied greatly over the ten year period from 1955 to 1965. The retailer after paying labor and overhead costs of 7c or 8c per gallon has a profit which does not exceed 1c per gallon except in a small percentage of high gallonage outlets.

Cost of a Gallon of Gasoline

The cost items to provide a gallon of gasoline to the motorist are as follows:—

Chart 93

Chart 153

Chart 154

Table 152

Chart 83

Chart 48

Item of Cost	Cost in cents per gallon	
(a) For the millions spent on exploration and <b>production of crude</b>	3c	
(b) For the millions spent on <b>refineries</b> and processing plants ....	3c	6c
(c) For the oil company <b>marketing departments</b> which build excessive numbers of unnecessary service stations, subsidize lessees to occupy them and conduct expensive advertising programs each trying to outdo the other in giveaways and prizes .....	5c	
(d) For <b>retailing</b> by the service station operator who, because of the excessive numbers of unnecessary stations, doesn't have the opportunity to sell enough gallons to economically utilize his facilities and to keep his capital and labor costs per gallon at minimum levels and who accordingly ekes out a precarious marginal living .....	7c	12c
	<u>18c</u>	<u>18c</u>

It is to be noted that the cost of retailing through a service station at 7c per gallon exceeds all the costs of exploration producing and refining which together only total 6c.

The combined cost of marketing and retailing at 12c per gallon is double the 6c cost of producing and refining.

This is the result of the wasteful system of marketing through tied outlets to protect the market share of each of the "Cartel" subsidiaries which collectively dominate the industry and have a virtual monopoly.

The oil industry which is efficient enough to reduce the costs of exploration, production and refining to a total of 6c per gallon is fully aware of the high costs of marketing and retailing.

A significant portion of these high costs is due to the system of tied outlets which results in

- (a) too many service stations;
- (b) inadequate gallonage per outlet, resulting in wasteful use of capital and labor which makes economies of large scale impossible;
- (c) exclusive buying provisions with higher buying costs for retailers;
- (d) the costs of subsidizing uneconomic lessee outlets.

Chap. 25

Chap. 23

Chap. 20(2)

Chart 24

(2) Discriminatory or Unfair Pricing

Different Prices to Different Users

The motorist who buys regular gasoline from a service station pays a much higher price than any other user. The average prices paid by users of regular gasoline during 1965 was as follows:—

Table 153

Class of User	Price Paid in Cents Per Gallon
Commercial and Industrial .....	15.86c
Farm (exempt from Fuel Oil Tax) .....	18.87c
Farm (subject to Fuel Oil Tax) .....	30.87c
Motorists .....	39.9 c

Chart 94

Table 154

Discounts from Posted Prices

Service stations buy gallonages in excess of 100,000 gallons and get no discount. Commercial consumers who buy less than 10,000 gallons obtain discounts as high as 8½c per gallon. Discounts to commercial and industrial consumers do not appear to be related to gallonage purchased. The main difference appears to be that the service station is tied and has no bargaining power on price, whereas the commercial consumer can purchase where he chooses.

Chart 85

Table 155

Sometimes an attempt is made to justify a discount by reference to lower incremental costs of refining additional barrels. When the total cost of refining is between 2c and 3c per gallon, and discounts granted range as high as 9c a gallon the discounts are three times the total cost of refining.

Chart 85

Off Brand Pricing

The refining division sells to purchasers such as marketing divisions and off-brand wholesalers at different prices. They in turn resell at prices which differ still more widely. It is hard to justify these differences on any basis of cost.

Chart 100

Chap. 35(6)

Chap. 36(4)

The off-brand wholesaler performs a wholesaling function for off-brand outlets that corresponds to the wholesaling function performed by a marketing division for brand name retail outlets. Consequently the off-brand wholesaler should obtain a manufacturers price from the refining division corresponding to what the marketing division pays the refining division. Many off-branders are small which enables them to effect economies in wholesaling costs so they can sell to their off-brand retailers at a price which enables such retailers to sell below the brand retail price.

Chart 95

Chap. 36(4)

Chart 96

Some off-brand wholesalers do not purchase as large an annual volume as some high gallonage service stations, but they still obtain a manufacturer's price rather than a wholesale price. In the combined operation of marketing and retailing the off-brand has a higher buying price and a lower selling price so his ability to compete, even at retail, is strictly limited.

### Premium Gasoline Pricing

Premium gasoline accounts for about one-third of automotive sales. The cost of premium gasoline appears to be only slightly higher than regular gasoline but there is a large price differential of 5c per gallon. The higher price for premium is charged at the wholesale level so this produces a higher profit per gallon on premium for the "cartel" companies which own the refineries and produce the premium gasoline.

### Price Discrimination Against Owned Outlets

Of the six items of marketing division cost which total 5c, three of those items are properly costs of retailing, namely the provision of service stations, the training of operators of service stations, and the cost of credit cards which finance purchases by customers of service stations. Marketing division costs would be cut in half by removal of these items which would enable reduction of the cost of gasoline to service stations. One of these items alone, current expenditures on service stations of 1.87c per gallon, is the largest single item of marketing division expense. The effect of including this item of cost in the wholesale price of gasoline is discriminatory because it compels privately owned independent service stations, who already bear all the expense of providing their own premises, to contribute 1.87c per gallon toward the cost of providing service stations to be owned by oil companies and operated by lessees who are their competitors.

### The Price Squeeze on the Operator

Oil companies are efficient businesses which attempt to get as much revenue as possible from the sale of their products. Service station operators collectively purchase a majority of the oil industry's refined products. The oil company squeezes the dealer to get all it can from him in any way it can,—

- (a) by charging him the highest price for gasoline of any purchaser;
- (b) by increasing his rent as his volume increases, by relating rent to his "business opportunity" based on sales;
- (c) by including in the wholesale cost of gasoline the cost of credit cards which encourage the sale of oil company brand products;
- (d) by "directing" the dealer's buying of tires to enable the oil company to earn a commission on the dealer's purchases of tires;
- (e) by "directing" the dealer's buying of batteries to enable the oil company to earn a commission on the dealer's purchases of batteries;
- (f) by basing rent on "business opportunity" or "gross sales" to obtain a percentage of what the dealer charges his customers for repairing their cars; and
- (g) by charging him part of the cost of merchandise, coupons, premiums, tickets, or chances that the customer receives in connection with oil company sponsored sales promotions of its brand name products;
- (h) by inducing him to invest his savings in inventories of oil company products and in equipment to facilitate the sale of oil company products and to take the risk of losses incurred in retailing oil company products.

The constant squeeze on the dealer increases the company profits, but each of these practices increases the dealer's costs.

The numerous contract ties which bind the dealer contribute to the effectiveness of each of these methods of obtaining money from the dealer.

Many of the problems in the relationships of service station operators and oil companies are manifestations of the numerous pressures to squeeze another fraction of a cent per gallon which represents hundreds of thousands of dollars to the integrated companies.



At the same time as the oil companies are trying to increase their profits by obtaining more money from the dealer they follow a number of practices which keep down the ultimate price of their products and which force down the operator's mark-up. The following oil industry practices tend to reduce retail prices and to force down the operator's mark-up:

### **Retail Competition From Off-Brands**

Integrated oil companies with refineries exercise a measure of control over retail pump prices—

- (a) by controlling the volume of gasoline they supply to off-branders; and
- (b) by controlling the price at which they sell to off-branders which in turn determines the price at which off-branders can resell.

This permits a limited degree of price competition at the retail level due to the operation of off-brand retail outlets. This is not competition between oil companies, rather it is competition between retailers, which prevents brand name retailers from increasing their retail prices.

Chap. 34(1)

### **Retail Competition by The Oil Company**

The oil company itself in large markets like Calgary and Edmonton may operate a few strategically located stations by its employees or by retail commission agents, and in these stations it fixes prices below those of its brand name dealers. The existence of such lower prices in competing outlets deters owner operators and lessee operators from increasing their retail mark-ups.

Chap. 34(2)

### **Commission Consignment**

If off-brand retail prices get too low, the integrated oil companies use commission consignment to force up off-brand prices and to eliminate price competition. Commission consignment also has the effect of forcing down brand name retail mark-ups when in the opinion of the integrated companies, they become too high. The oil companies appear to institute "commission consignment" almost at will. The oil company then controls retail prices, and it uses this control either to eliminate the price competitor or to force up his prices to an acceptable differential. In the United States the Supreme Court found the use of commission consignment by Union Oil Co. to be illegal. The Federal Trade Commission successfully attacked commission consignment in cases involving Sun Oil Co. and Atlantic Refining Co.

Chap. 34(3)

Table 160

Chap. 34(3)

### **Commercial Credit Cards**

An oil company by issuing commercial credit cards deprives retailers of their normal mark-up. Instead the oil company makes a payment per gallon to the dealer which is below the dealer's mark-up and usually below the dealer's cost of servicing the customer.

Chap. 34(4)

### **Reduction of Operator's Mark-up by Advertising Expense**

By charging the expense of a special advertising promotion to its dealers, this increases the income of the oil company and decreases the profit of the operator.

Chap. 34(5)

### **Conditional Reduction of Dealer Tank Wagon Price**

An oil company by offering its dealers a 1c reduction in their purchase price on condition that they reduce their pump price by 2c forces a reduction in the dealer mark-up of 1c. If one dealer declines but a competitor accepts, the pump price of the competitor is 2c lower and the dealer who did not accept loses his customers.

### **Pricing of Other Merchandise**

An oil company may advertise directly to motorists that the service station operator will provide them with certain merchandise or services at a designated price. The oil company is for all practical purposes fixing the price

the service station operator can charge. This may compel the operator to incur a loss in providing his customers with the advertised merchandise or services, although it may promote sales of the oil company's gasoline.

### **F.O.B. Refinery Pricing**

Marketing divisions of integrated companies operating in Alberta now use a system of point pricing or zone pricing. The system of point pricing or zone pricing provides opportunities for discriminatory pricing practices. It enables an oil company with a large marketing area to compete unfairly in a limited portion of that area by lowering prices to eliminate or compete unfairly with a particular competitor while generally maintaining its higher price throughout most of its marketing area. Pricing based on posted prices f.o.b. the refinery supply point eliminates much of the opportunity for discrimination and would be much fairer. There are substantial differences in price, both at the manufacturing level (e.g. refining division to marketing division or refining division to off-brand wholesaler) and at the wholesale level (e.g. marketing division to service station or marketing division to commercial or industrial consumers) which are not justified by any apparent differences in cost.

The system of tied outlets by which the oil company as seller controls the service station as buyer largely eliminates price competition. Each oil company as seller has a group of service stations to which it has the exclusive right to sell, and which cannot bargain on price because they are controlled by the oil company.

Competition in price to retailers is not used and would not be effective because practically all outlets are tied and practically no outlets are free to switch to another supplier even if a lower price were offered.

The problems besetting service station operators arise almost entirely from the system of tied outlets.

If the ties binding outlets were removed or severed, the gasoline produced by any manufacturer would gain its share of the market in the normal way by competition between suppliers in price, quality and service.

In the opinion of the Committee most of the unfair or discriminatory pricing practices which now exist in gasoline pricing would be eliminated if there was a measure of price competition between oil companies in the sale of products to service stations.

### **(3) Conclusions and Recommendations re Price**

#### **Profits are Related to Price**

One obvious way for an oil company to increase its profits is to increase the price at which it sells.

In Alberta, oil companies produce more gasoline than any other refined product. The automotive market constitutes the largest segment of the market for gasoline. Collectively, service stations are the largest class of purchasers that an oil company has. Sales to service station dealers are the largest single source of income to an oil company because they are made at the highest price.

Accordingly the price at which gasoline is sold to service stations is vital to the profit structure of the oil industry.

If the "cartel" companies can increase the price their dealers pay for gasoline by 1c per gallon, this increases the annual profit of the "cartel" subsidiaries operating in Alberta by \$2,250,000.

#### **Control of Price and Tied Outlets**

The "cartel" companies formerly controlled their prices by agreement between the companies which controlled the world's export oil, until agreements between sellers to fix prices became illegal under anti-trust or combines or monopolies legislation in many parts of the world.

However, there is nothing illegal about an agreement between a seller and a buyer which fixes the price of the products sold. If the seller controls the buyer it is easy to negotiate a price which is satisfactory to the seller.

Chap. 35

Chap. 35(2)

Chap. 35(5)

Chart 100

Chap. 36(4)

Table 158

Chart 3

Table 143

Table 153

Chap. 33(6)

Chap. 44(2)

Chap. 44(3)

When the buyer is tied to and controlled by the seller, and there is no competition for his business, the seller controls the price.

The system of tied outlets gives the oil companies control over hundreds of thousands of service stations which are their buyers throughout the world. The system of tied outlets on a massive scale is a system which enables the oil industry to fix the price at which it sells its automotive gasoline. The oil companies post a price which is uniform for all of its tied buyers and to which all of its tied buyers "agree".

Over 3,000 of the retail outlets in Alberta are tied to marketing a particular brand and less than 100 outlets are owned by completely independent persons free to buy where they choose.

The tied retail outlet which is controlled by the oil company which supplies it pays the highest price per gallon of any purchaser of gasoline.

The commercial or industrial consumer which is not tied to any oil company buys gasoline at prices discounted as much as 9c per gallon below the price paid by the service station operator for larger volumes.

### **Profits of Oil Companies and Service Stations**

Oil companies are astute. They spend a good deal of time devising methods of increasing their profits. Any way in which they can obtain more money from a service station dealer is a way they can increase their profits.

The dealer is a business man with his own money risked and his own profits at stake. Nevertheless he is tied to purchasing exclusively from a single oil company. Any plan the oil company devises to increase its profits almost inevitably reduces the dealer's profit. For instance a rental increase for the dealer, or longer hours of opening for the dealer, will increase the oil company's profit and reduce the dealer's profit. Irrespective of the result for the dealer he is fearful of the consequences of not accepting any oil company "suggestion", because his lease is terminable on short notice and under his contracts he can't buy from any other source.

A dealer who is difficult to deal with or who consistently refuses to follow oil company "suggestions" can readily be terminated and a new one recruited. The individual service station operator, as a buyer, accounts for such a tiny fraction of the oil company's sales, that any operator is expendable.

The system of tied outlets results in high costs of marketing and retailing. However, a decline in the high price of gasoline due to uncontrolled price competition could be much more costly to the "cartel" companies than the cost of tied outlets. It would appear that the "cartel" prefers to accept the high costs of marketing and retailing resulting from the system of "tied" outlets rather than lose control of price and face the prospect of price competition.

### **Recommendations**

From the point of view of the public however, the system of tied outlets is a wasteful and costly marketing system which the motorist has to pay for in higher gasoline costs, and the operator has to pay for by long hours and low income in marginal retail outlets. If the ties were severed, the operator would be free to operate his business in an economic way, and any reductions in price that might occur from price competition would directly benefit the motorist.

The various discriminatory prices and pricing practices that now exist would probably be eliminated also by price competition.

The Committee accordingly recommends action by the government on the items enumerated in Chapter 36 Item (4) of the Appendix which would permit or encourage a greater measure of price competition at different levels of the oil industry.

Chap. 7

Chap. 31(11)

Chart 85



## CHAPTER VI RELATIONSHIPS BETWEEN OIL COMPANIES AND SERVICE STATION OPERATORS

### (1) The Contract Ties

Chap. 18 The service station operator is bound to deal exclusively with a single oil company by an unbelievable number of contract ties. These ties which are intricately interwoven and mutually supporting govern practically every business decision of the operator in a variety of ways.

The complaints of current operators, whether owners or lessees almost invariably relate to problems arising out of the existence or enforcement of one or other of the numerous contract ties. Frustrations resulting from compulsion under contract ties were a substantial contributing factor to the decisions of former operators to terminate.

Each individual tie appears small and of little consequence but in their cumulative effect upon the operator of a business they become oppressive and intolerable.

Chap. 19 The ties are contained in a number of different contracts. For instance on advertising alone three major companies each reported that it had provisions limiting or restricting the dealer's right to advertise in seven different contracts.

Chap. 16(2) Contracts which start out with the appearance of doing one thing are changed in character by the introduction of additional unexpected clauses which deal with something completely different. For instance a document which is primarily a lease may contain provisions applying to the dealer's right to advertise. A contract which primarily deals with the sale of an item of equipment may have clauses in it relating to the exclusive dealing in a certain brand of petroleum products. An agreement for a loan which deals primarily with the borrowing and repayment of money may contain a clause about the quantities and kinds of merchandise kept on the premises.

Chap. 19 Mr. Justice Douglas of the United States Supreme Court in his judgment in which he found commission consignment to be illegal on the ground that it was a price fixing device refused to accept the argument that the purpose of the contract was to create an "agency" relationship, because the form of the contract was one of "agency". To do so, he said, would be to make legality turn on clever draftsmanship.

The clever draftsmanship of oil company contracts is such that the service station operator who is depicted as an independent business man has been deprived of independence by so many contract provisions in so many areas of his business that he has no more freedom and much less security than an employed manager. The clever draftsmanship enables the oil company to make decisions which affect whether the operator will make a profit or incur a loss, but insulates the oil company from the risk of such losses. Professor Barna of the Monopolies Commission in Great Britain stated

"The Commission has studied several hundred different forms of contract between suppliers and retailers."

"Such complicated selling arrangements for a standard product appear to be not only unnecessary but also harmful. The system as a whole tends to be unfair to the small man who has neither the time nor the expertise to understand the complications of some of the legal documents."

Chap. 34(3) In a business where the profit on gasoline is less than 1c a gallon it is easy to understand the hardship created when operators are placed on commission consignment. Under this practice the normal mark-up of about 8c per gallon is replaced by a commission of approximately 6½c per gallon which has the inevitable result of causing most outlets to lose money on every gallon sold. Operators reluctantly accept commission consignment arrangements at the request of their oil company because they are tied to the oil company and don't dare run the risks of refusal of the request.

Chap. 10 When the oil company representative produces a new lease at a higher rental and asks the operator to surrender his old lease at a lower rental, the operator reluctantly agrees, and does so "voluntarily" because he is "tied" to the oil company and knows that failure to accede to the request will lead to loss of his service station.

In a business where the profit on gasoline is less than 1c a gallon, if the oil company sponsors an advertising program involving prizes or premiums under which the operator is required to buy merchandise or tickets to give to his customers, the cost to the operator can eliminate his entire profit on gasoline or create a loss. He reluctantly and protestingly participates in such programs because his outlet is "tied" and if he fails to conform to oil company suggestions he knows he will lose his business.

Chap. 16(5)

In many service stations it is doubtful whether the sale of gasoline produces any profit at all. In such stations their very survival is then dependent on their ability to make a profit on their other sales, such as tires, batteries, accessories and repair.

Let us take as an example an item of merchandise on which the operator has a mark-up of 20c. If he buys it from his oil company for one dollar, and another supplier offers to sell the same item to him for 90c, the operator has the opportunity of increasing his profit on that item from 20c to 30c which is an increase of 50% in his gross profit. Because the operator is "tied" the operator is unable to purchase from the other supplier without running the risk of oil company disapproval and the loss of his service station business.

Chap. 13(5)

In many retail gasoline outlets where gasoline is handled near the break even point or at a loss, part of the operator's profit on the repair division of his business is already required to help pay for keeping the station open for the sale of gasoline. In such circumstances the operator particularly resents a rental formula from his oil company which exacts a further percentage of his gross repair bills on account of rent.

The operator who gets out of bed in the middle of the night to oblige a valued customer whose vehicle needs urgent repair may be paid \$18.00 by the customer for the labor, repair parts and emergency service. The operator begrudges forwarding \$1.08 out of this amount to the oil company under the rental formula which compels him to pay to the oil company a percentage of his gross repair bills rendered to customers. However, as his outlet is "tied" he "voluntarily" agrees knowing that failure to do so would result in the loss of his service station.

Chap. 10

The operator does so many things "voluntarily" which are obviously to his financial disadvantage that you repeatedly ask the question "Why?" The answer invariably is that he is afraid to do otherwise because of the risk that the company will enforce one of its numerous contract powers.

The operator's fears appear to be justified. The numerous contract provisions provide the oil companies with a number of sanctions and penalties which they enforce without hesitation. The Committee examined various cases where different contract provisions and different issues were involved which clearly illustrate the overwhelming certainty of the inevitable result.

Chap. 20

Chap. 20(1)

In the opinion of the Committee most problems arising between service station operators and oil companies arise from the fact that outlets are "tied".

Chap. 20 (2) to (7)

An independent business man normally exercises his freedom of enterprise in three main areas, with a view to making a profit —

- (a) he negotiates with suppliers to obtain the most favorable price;
- (b) he scrutinizes costs and expenses to eliminate items which cause loss, or do not contribute to profit;
- (c) he fixes a sufficient markup to cover his expenses and provide a reasonable profit.

Oil company contract ties and marketing practices limit the operator's freedom of action in each of these three vital areas.

To obtain a supply of petroleum products the operator has to enter into a dealership agreement or franchise agreement under which he agrees to buy the products of one oil company exclusively for a term of years at its regular posted price. This contract prevents him from switching brands to take advantage



of lower prices, and as his contract obligates him to pay the oil company posted price, he has no bargaining power to obtain discounts like commercial consumers succeed in obtaining. He is in the same position with tires, batteries, accessories and merchandise where he is bound by "directed buying" arrangements, "full line forcing" arrangements, etc., which similarly deprive him of choice of supplier and deprive him of bargaining power on price.

Similarly oil company contracts limit the freedom of the operator to reduce what he may regard as unnecessary costs. The oil companies consider that their public image is affected by the behavior of retailers selling their brand name of products. Accordingly oil companies require the operator

- (a) to maintain levels of free services for customers such as washing of windows, checking of tires, etc. which cost the operator money to provide;
- (b) to provide standards of wash room facilities and cleanliness conforming to the oil company public image which costs the operator money to provide;
- (c) to maintain hours of opening, for which the operator has to bear the expense of salaries and overhead, during hours when the operator would find it more profitable to close and reduce his expenses;
- (d) to participate in oil company advertising programs which add to the operator's expenses but do not increase his income.

The operator is not free to reduce his expenses in these and other areas, because if he decides not to follow oil company "suggestions" he may lose his service station business.

The operator's freedom to determine his markup and fix his selling price is limited by oil company pricing policies which permit

- (a) price competition from off-brand outlets which purchase from the same oil company at a lower price than the operator can;
- (b) price competition from oil company owned and employee operated outlets which offer lower retail prices;
- (c) price competition from oil company owned outlets operated by commission agents which offer lower retail prices.

The operator is accordingly deprived of his freedom of enterprise in the three areas of most vital importance to an independent business man.

An independent business man whose energy and enterprise builds up a successful business normally acquires,

- (a) the security of owning a business with a proven capability of producing income; and
- (b) the security of a saleable asset in the form of goodwill if he chooses to sell his business.

The independent business man who is a service station lessee does not have either of the above advantages.

His various contracts with his oil company are all terminable on short notice, so the ability of the business to produce income gives him no security because he can be deprived of the business at any moment.

It is oil company policy not to permit an incoming lessee to pay a terminating lessee for goodwill. The oil company is able to give effect to this because it has the power to grant or withhold a lease of the service station and to grant or withhold a supply of petroleum products. The oil company is a required party to the completion of any sale, and if it won't agree to a terminating operator selling his goodwill, then he has nothing to sell.

One company makes this policy abundantly clear by requiring all incoming new lessees to sign a "goodwill declaration" containing statements reading in part as follows:

"I am not paying (the outgoing tenant) anything for goodwill or for the 'business'."  
". . . that any goodwill I may acquire . . . will be of no value if and when the said lease is terminated"  
"that I will not be entitled or permitted to sell the goodwill or the 'business' when I vacate the aforesaid service station".



Accordingly a service station operator has no security in his business, because he can be terminated at will, and his efforts in building up the business don't create security because he has no "goodwill" that he is permitted to sell.

In Chapter IV we examined five of the causes contributing to extinction of owned outlets and to turnover of lessees. The conclusion was that all of these causes were related to or dependent upon the system of tied outlets.

In Chapter V the study of price indicated that the system of tied outlets enables the oil companies to fix the price at which they sell and eliminates price competition. To create and maintain the system of tied outlets results in wasteful and costly practices of marketing and retailing and high costs to the motorist.

To the service station operator, tied outlets are the cause of long hours, low earnings, lack of freedom to run his business, no security under his lease, an atmosphere of suspicion and distrust in his dealings with the oil company, and harsh enforcement of oppressive contracts when a difference arises.

In other countries where the problem of service station operators have been studied, the "tied" outlet was seen to be the problem but the solution suggested was to restrict or prohibit one or more of the methods used by the oil companies to tie the outlets.

However, if one method of tying was restricted or prohibited the oil companies found another method or devised a new one which was equally effective to attain the same basic objective of tying outlets and controlling the market.

Accordingly the solution we suggest is to assert and establish the right of the service station operator to conduct his business free from oil company ties. Then any means of tying now used, or any new means of tying that may be devised, would be an infringement of the service station operator's freedom and would be prohibited.

The undesirable result, namely — the tying of outlets is the problem that should be solved, rather than prohibiting a specific means used for the time being to attain that result.

## **(2) The Relationships**

The Committee was instructed to consider the relationship between oil companies and service station operators. We found a sick, unhealthy relationship which is unbelievably bad.

The single main problem in the relationship of oil companies and service station operators is that everything is founded on contract and compulsion. Practically nothing in a service station is done voluntarily by the operator as the result of his free choice.

The basic relationship is that of buyer and seller, and in numerous cases it is also that of landlord and tenant. In marketing petroleum products many of the negotiations between buyer and seller or landlord and tenant are founded on threats and compulsion. The result is an atmosphere of suspicion and distrust. Most operators are convinced that in any given set of circumstances the oil company will exploit them for its own advantage, — and they appear to be right.

Their relationships are governed by a multiplicity of mutually supporting contracts which in their cumulative effect are unconscionable. No matter what issue arises there appears to be a contract provision somewhere which covers it, giving all the powers and advantages to the oil company and depriving the operator of rights you would expect he might have.

The oil company has little or no concern for the problems of its operators and enforces its contracts with them harshly, and to the letter, with no apparent human consideration.

The oil company in its relationship to its dealers appears to suffer from schizophrenia. At one moment the dealer is treated as an essential member of the oil company team, and the next moment he is being dealt with at arms length with his business and his income at stake.

Chap. 20(7)

Chap. 20(4)

Chap. 20(6)

For one purpose the oil company wants its dealers to identify with the company, projecting the company public image, and being an integral part of the picture that the brand name oil company presents to the public.

For another purpose, the service station operator is a purchaser from whom the oil company extracts the highest price, and obtains the most favored contract terms.

If the dealer was a part of the oil company, as the oil company likes to picture him, he would be carefully selected, well trained, and well paid.

However, as the dealer is "an independent business man" who is expected to be able to look after himself, the oil company allows practically anyone interested in becoming a lessee to risk his money if he wishes to do so almost irrespective of training, ability, or chance of success.

Although he is "independent" for the purpose of risking his investment and for the purpose of trying to earn an income, the oil company wants to be sure that his "independence" ends there, and that this "independent business" is conducted in such a way as to create the most favorable impression of the oil company and its brand of products in the mind of the public. Accordingly the operator's independence is whittled down by a large number of contractual ties which compel him to conduct his business in exactly the way that the oil company wishes it conducted in practically every respect.

Of more than 500 operators of retail outlets who were interviewed, practically all were unanimous in stating they were unhappy about numerous aspects of their relationships with the oil companies they represented. Operators of "service stations" had more complaints than operators of gasoline outlets classified as "other business with some gasoline sales."

All operators of "service stations" were resentful about some aspect of oil company interference in their businesses, and complained about lack of freedom of enterprise. They consider they are forced by circumstances and by contract to do as the oil company "suggests", and are:—

- (a) not free to set their own hours;
- (b) not free to buy the gasoline they choose;
- (c) compelled to buy designated brands of tires, batteries, antifreeze, and merchandise at prices which are not always competitive;
- (d) not free to advertise their own names and compelled to advertise the oil company;
- (e) compelled to pay for promotional advertising programs and contests sponsored by oil companies;
- (f) compelled to accept lease and contract changes, the only alternative available being to abandon their business.

The operator considers he enjoys only two freedoms —

- (a) freedom to do everything his oil company "suggests";
- (b) freedom to go broke.

Oil companies advocate freedom of enterprise for oil companies, and practise economic slavery for operators.

This leads us to recommend a measure of government control which would primarily affect four gigantic companies, in substitution for the oppressive contractual controls that these companies now apply to thousands of Alberta gasoline retailers.

Our recommendations would restrict the free enterprise of the four oil companies only to the extent necessary to restore free enterprise for the retailers of gasoline.

A measure of government control applicable to a handful of companies which restores freedom to thousands of operators is preferable to the stifling industry controls which now deprive operators of freedom by an intricate web of contract ties.

The committee firmly believes in free enterprise. We believe that free unfettered competition operates in the public interest as an incentive to progress and usually ensures that the customer gets better quality and cheaper goods and services. Responsible free enterprise has given us one of the highest living standards in the world. However we have to allow free enterprise to work.

Henry Ford II commented, "I have deep faith in the stimulating power of competition and in the capacity of the free market to allocate resources and to bring optimum growth and progress, if we will only let it work."

In our opinion the oil companies are not allowing free enterprise to work. The effect of their tying contracts and other monopolistic practices is to eliminate price competition between oil companies in the sale of gasoline to retailers. Our recommendations are aimed at removing oil company practises which do not allow price competition or free enterprise to work.

### **(3) Conclusions re Relationships**

The system of tied outlets has given to oil companies —

(a) control of retailers,

(b) control of the price at which the industry sells to retailers.

Measured statistically as a device to control retailing the system of tied outlets has unquestionably been successful. In the ten year period from 1955 to 1965 outlets tied to subsidiaries of "cartel" companies have increased in number from 1381 to 2757, while other outlets have declined from 1547 to 387. Outlets tied to "cartel" subsidiaries accounted in 1965 for 87.9% of total gasoline outlets in Alberta.

Measured in human terms the system of tied outlets is a dismal failure. For the service station operator it has meant long hours and loss of leisure, loss of freedom, and loss of security and savings.

Where unrestricted free enterprise has infringed on the rights of people, governments have intervened to protect people from business.

Governments protect employees from exploitation by their employers by two principal methods

(a) by laws relating to working conditions such as hours of work laws and minimum wage laws; and

(b) by labor laws which permit employees to organize and to bargain collectively through unions.

Unequal bargaining had arisen between employers and employees so laws such as these restored the balance.

The service station operator who is being exploited is not protected by either kind of law because he is by definition an employer and not an employee.

Unequal bargaining now exists between oil companies and lessees. As the oil industry has failed to deal with the problem and as operators are helpless to protect themselves government intervention is necessary to restore the balance.

In the opinion of the Committee there is no practical way to protect the service station operator from continued exploitation by the oil companies except by government intervention and the enactment of protective laws. In the opinion of the Committee the exploitation of service station operators is so serious and so widespread that government intervention is justified and called for.

The subsidiaries of four international companies which to a large extent control refining and marketing in Alberta are the ones that would be primarily affected by any such intervention. These four companies are linked in consortiums, joint ventures, and other common activities and purposes in many parts of the world and to a large extent practice common marketing policies. They establish marketing patterns for the industry, and others engaging in marketing simply conform to the existing patterns.

Each operator is bound to one oil company by a web of contract ties which are intricately interwoven and practically impossible to break.

The service station operators in their plea for "divorcement" recognize this web of ties as the principal problem they face in the conduct of their



business. Divorcement is a drastic solution involving substantial measures of government intervention and compulsion to require the sale of thousands of service station properties and to deal with the resulting problems. Only if no other solution of a less drastic nature appeared practical should a solution of this nature be recommended.

The Monopolies Commission of Great Britain recognized the web of ties as the principal problem of service station operators. The approach of the government there was to obtain "voluntary undertakings" from the oil companies having the effect of reducing the length of one tie, weakening another tie by limiting its scope, severing another tie, etc. This approach was helpful but it left the oil companies free to devise other ties in substitution for those that were severed, to devise new methods of strengthening those ties that had been weakened, and to introduce overlapping ties which make a series of short term ties as effective as a single long one. If a tie is bad and not in the public interest, permitting its existence for a short time may be better than permitting it for a long time but the best solution would be not to permit it at all.

In most industries such protection has not been necessary. However, in the integrated oil industry where supply is largely controlled by the gigantic international companies with monopolistic characteristics, the individual operator has practically no bargaining power. In these circumstances the oil companies have prepared, with clever draftsmanship, a web of contract ties which are unconscionable in their cumulative effect and which are harshly enforced.

In the opinion of the Committee the operator clearly needs protection which he is powerless to obtain for himself.

In the business of retailing gasoline the Committee considers the oil companies should have the choice

- (a) of operating their service stations by employees or agents; or
- (b) of letting independent business men lease and operate such stations.

The form of contract or "the clever draftsmanship" to which Mr. Justice Douglas referred should not determine whether the "independent business man" is independent or not but this should be a question of fact. The Committee suggests that in any case where

- (a) the operator invests his own money; or
- (b) the operator takes a risk of losing his own money; or
- (c) the operator pays salaries to employees; or
- (d) the operator owns the premises or leases the premises or pays an occupancy charge for the premises; or
- (e) the operator buys gasoline or other merchandise or is charged with the cost of gasoline or other merchandise for resale;

then the operator of the service station or retail gasoline outlet shall be an independent business man and entitled to certain rights which should be protected by legislation.

If the oil company wishes to operate its own outlets by employees or by agents remunerated by commission it should be able to do so. However, the agent in such case should be deemed to be an employee within the meaning of the Alberta Labor Act, and should not have any of the responsibilities or risks making him an independent business man outlined above.

The second principle which the Committee considers should apply in such relationships is that in any case where the operator of a service station or retail gasoline outlet leases his premises from an oil company or other supplier, or pays an occupancy charge, the operator shall have security of tenure so long as his rent is paid and his premises are maintained in reasonable repair, without interference or control of any kind by the oil company or supplier in the operation of the retail business.

The Committee is of the opinion that these liberties, which it is reasonable for service station operators to have, should be protected by legislation so that any tie or restriction which encroaches on such a liberty would be ineffective automatically.

## CHAPTER VII A BILL OF RIGHTS FOR SERVICE STATION OPERATORS

There are other freedoms which are just as important as freedom of contract. There have been cases where the government in the public interest has found it necessary to curtail unlimited freedom of contract.

When sellers of equipment became too harsh in the enforcement of their contract rights to collect monies owing, and not only repossessed the equipment but sued the debtor for the deficiency, this aroused public protest. The legislature in the public interest restricted the creditor's freedom of contract by enacting a provision in the Conditional Sales Act that if the seller elected to seize the equipment he could not maintain an action for the balance of the purchase price, notwithstanding the terms of the agreement between the buyer and seller.

When mortgage companies in accordance with their contracts were exercising their powers of foreclosure more freely than appeared to be in the public interest, the legislature enacted provisions in the Judicature Act relieving the debtor from consequences of provisions in the contract relating to non-payment of principal or interest in certain cases. In another section of the same Act it provides that a contractual provision in a mortgage or in an agreement for sale, giving a personal covenant to pay, cannot be exercised and the right of the mortgagee or vendor is restricted to the land to which the mortgage or agreement relates.

In the opinion of the Committee the marketing practices of the oil companies and the contractual ties with which they have bound their operators have been largely responsible for the business failures of many operators and for hardships to such people which should not be tolerated.

When oil companies abuse their monopolistic position and their freedom of contract by creating a web of oppressive ties which restrict the business freedom of thousands of citizens, and harshly enforce those contracts the Committee considers it is equally in the public interest that the freedom of contract of oil companies should be subject to a measure of restriction.

Their freedom to contract with one another has already been restricted by law. The "cartel" companies entered into four international oil agreements between 1928 and 1934. These agreements established seven principles to govern group action referred to as the "as is" principles. These agreements were reinforced in various countries with local "cartel" agreements which included quota arrangements dividing the market, covenants to respect each others customers, provisions fixing prices, and provisions limiting competitive expenditures for marketing facilities. Product exchange agreements between oil companies enable each company to obtain supplies from the nearest refinery without unnecessary duplication of refining facilities. In several countries anti-trust laws or combines laws or monopolies laws now make agreements between sellers to divide the market and to fix prices etc., illegal.

However, the "cartel" companies and their subsidiaries have now achieved many of the same objectives by other contracts which are still legal.

They have created a system of "tied" outlets by means of contracts with thousands of service station operators. By this system the market is divided into groups of "tied" outlets, each group is the exclusive sales territory of one oil company which is respected by all the others, and "cartel" brand operators all buy petroleum products at uniform dealer posted tank wagon prices which are the highest paid by any class of purchaser. Any other company which now engages in marketing has to conform to the system by developing "tied" outlets if it wants a market.

The oppressive terms of the tying agreements create an exclusive market for one oil company in which no competitor has any right to compete or attempts to compete. The interwoven web of mutually supporting contract ties to which service station operators are subject make them the economic serfs of one oil company to which they are hopelessly tied.



To restore freedoms to the service station operator that the normal independent business man enjoys, some of the ties by which he is bound must be severed. Both the individual operator, and operators collectively are helpless to sever these ties.

The conditions of economic slavery created by the ties and the resulting human hardship should not be tolerated in a society that calls itself free. Government intervention is justified and required.

The Committee accordingly recommends the enactment of a "Bill of Rights for Service Station Operators" to protect them from exploitation and to restore their freedom. The legislation should state the rights to which service station operators shall be entitled and prohibit practices which encroach on such rights.

We have listed these rights under three headings, Entitlement to Rights, Rights of Tenants, and Rights of All Retailers.

The degree of government intervention recommended for the purpose of freeing operators is an indication of the degree of restriction to which the operators themselves have been subject.

### **1. Entitlement to Rights**

**In any case where a retailer of petroleum products is required or permitted**

- (a) to invest his own money; or**
- (b) to take a risk of losing his own money; or**
- (c) to pay salaries to employees; or**
- (d) to lease the retail premises, or to pay an occupancy charge for the premises, or to own the premises; or**
- (e) to buy gasoline or other merchandise or to be charged with the cost of gasoline or other merchandise for resale;**

**then notwithstanding the terms of any contract between an oil company or other supplier of petroleum products and the retailer, the retailer shall be entitled to the rights hereinafter enumerated.**

### **2. Rights of Tenants**

**If an oil company or other supplier provides premises to a person to conduct the business of retailing petroleum products and such person is required to pay a rental or occupancy charge, such person should be entitled to security of tenure under a lease which should be deemed to include statutory provisions providing for the following:—**

- (a) rent shall be payable monthly and the rental formula shall not be changed during the term of the lease except with the consent of the retailer;**
- (b) the term of the lease shall not be less than five years from the date of the commencement of the lease or of the renewal;**
- (c) the lease shall not be terminated by the lessor during its term unless,—**
  - (i) the lessee fails to pay rent monthly when due, or**
  - (ii) the lessee fails to maintain the premises in good repair, reasonable wear and tear excepted; or**
  - (iii) exceptional circumstances which shall be enumerated to the lessee in writing; (and the exercise by the lessee of any right conferred on him by this Act shall not be an exceptional circumstance entitling the lessor to terminate.)**
- (d) except as provided above, the lessor may terminate the lease by a notice in writing served on the service station operator not less than six months prior to the expiration of any five year lease or renewal;**



- (e) the lessee occupying a service station shall have a right of first refusal on any new lease and the lessor shall not rent the service station to any other person for a lesser rental or on more favorable terms and conditions than have first been offered to and declined by the existing lessee;
- (f) if the lessor decides to sell the service station, the lessee in possession shall have a right of first refusal and the lessor shall not sell the service station at a lesser price or on more favorable terms and conditions than have first been offered to and refused by the lessee.

The lack of security of tenure is a problem uppermost in the minds of hundreds of lessees. The threat of lease termination is the weapon most frequently used to influence the lessee to accept the "suggestions" of the oil company. In three of the cases cited to illustrate contract enforcement, the threat of lease termination was used. In Great Britain, the government implemented the recommendation of The Monopolies Commission that leases should be for a minimum period of three years. The problems of lessees are dealt with in Chapter 10 entitled "Rent". The lessee has an investment of between \$4,000 and \$10,000 at stake in his business and in the opinion of the Committee, requires greater security than a three year lease.

Chap. 20(4)  
Chap. 20(5)  
Chap. 20(7)

### 3. Rights of All Retailers

The retailer of petroleum products, whether an owner or tenant shall have the right:—

- (a) to join and to accept office in any trade association of his choice, without interference, penalties or sanctions from any oil company which is his landlord or supplies him with products.

This prevents problems such as those experienced by Bernard Roux. No incident of this proportion in Alberta has come to the attention of the Committee but many operators are not active in their association because they are fearful of oil company disapproval. If these fears are unjustified, the oil companies should not object to the above provision.

Chap. 20(5)

Chap. 48(1)

- (b) to make submissions or representations to any oil company through the trade association to which he belongs, on behalf of himself and other operators who sell the brand name products of that oil company;

Some companies do not recognize the existence of the A.R.A. and take the attitude that it has no right to speak to the company on behalf of those of its dealers who may belong to the A.R.A. If several operators of a company each have the same problem which they cannot resolve individually by discussion with their sales representative or sales manager, they are unable to make a collective submission to the oil company through a trade association such as the A.R.A. because the oil company won't recognize the A.R.A. or the right of operators to ask it to act on their behalf. If this right existed the operators could be more effective in helping themselves.

Chap. 48(2)

- (c) to determine the hours during which his business will be open to serve the public, subject only to compliance with the laws and by-laws of the place where he carries on business, and no oil company which is his landlord or supplier shall offer or give any inducement or advantage or impose any penalty or sanction to influence the operator in his free choice of business hours.

Service station operators generally consider they are under pressures from the oil company which is their landlord or product supplier to extend their business hours. The nature these pressures can take is illustrated in the

MacGregor case. More recently in Edmonton an oil company took legal proceedings which invalidated the Edmonton by-law applicable to service station hours. When a new by-law was proposed, oil companies made submissions opposing it, and the A.R.A. representing service station operators supported it.

**(d) to buy, sell, stock, display and advertise on the premises any brand or kind of tires, batteries, accessories or other merchandise.**

Great Britain implemented the recommendation of The Monopolies Commission that service station operators should have this freedom. This agrees with the findings and recommendations of the Restrictive Trade Practices Commission to the Department of Justice in Ottawa in 1962 as a result of its Inquiry into the Distribution and Sale of Automotive Oils, Greases, Anti-freeze, Additives, Tires, Batteries, Accessories and Related Products. The Courts in the United States in such cases as Goodrich & Texaco, Goodyear & Atlantic Refining, and Firestone & Shell found oil company power over dealers constituted coercion and declared commission agreements illegal. In California in the West Coast Oil Case the judgment prohibited "directed buying".

**(e) to buy, sell, stock, display and advertise on the premises any kinds or brands of lubricating oils and greases, anti-freeze, kerosene, and other petroleum products**

Great Britain implemented the recommendation of The Monopolies Commission that service station operators should have this right. In California in the West Coast Oil Case the judgment prohibited oil companies from using agreements forcing dealers to buy all their petroleum products from one oil company.

**(f) to service vehicles on the premises or in the lubricating bay or in the service bays with any kind or brand of anti-freeze, oil, grease, or lubricants.**

Great Britain largely implemented the recommendation of its Monopolies Commission to give service station operators this freedom. However, in the case of tenants of oil companies although they were given the right to stock and sell all brands, there was a limitation in the "Undertakings" concerning the use of lubricating bay equipment. This means that if the operator is using one brand of oil or grease or anti-freeze to service the motorist's vehicle he can use the lubricating bay, the hoist and the grease pit, but if he is using another brand of oil or grease or anti-freeze he cannot use these facilities and has to undergo the inconvenience of servicing the car outside the lubricating bay. The Committee does not recommend this distinction in Alberta.

**(g) to prepay any debt, mortgage or loan owing by him to an oil company at any time without notice, bonus or penalty.**

This prevents problems such as those of the operator described in Chapter 20 under the heading "Contract in Restraint of Right to Prepay Debts." In that case the oil company declined to accept the final \$200.00 payment until eighteen years after the operator was prepared to pay it off which had the effect of perpetuating the operator's obligation to sell the products of that oil company exclusively for the eighteen year period. There are many cases of this nature. The British Government implemented the recommendation of The Monopolies Commission that the operator at his option could repay in full at any time after five years from the date of a loan and on such repayment the exclusive obligation to buy would terminate. The five years is based on Britain's decision to allow exclusive buying contracts for that length of time. We recommend prohibition of exclusive buying provisions.

- (h) to pay out in full at any time without notice, bonus or penalty the entire balance owing under any conditional sale contract, chattel mortgage or rental-purchase agreement relating to oil or lubricating equipment or other equipment used by him in his service station operation; and to purchase or return loaned equipment;**

Great Britain acting on the recommendation of The Monopolies Commission gave the retailer freedom to end "ties" relating to oil and lubricating equipment at any time by paying off the outstanding installments of a credit sale, or by purchasing or returning loaned equipment or rented equipment.

- (i) to receive from the oil company or other supplier which advertises its brand name products to the public, at no cost to the retailer, any tickets, chances, gifts, bonuses, premiums, or other promotional items the retailer may require to enable the retailer to play his part as advertised in any brand or product promotion.**

Chapter 16 explains the problems of operators in connection with advertising promotions of oil company products. This implements one of the recommendations in that chapter.

- (j) to receive compensation from the oil company for providing any services which the oil company advertises that the retailer will perform free or will perform for less than his usual price; and for providing any merchandise that the oil company advertises that the operator will provide free or for less than the operator's usual retail price, so that in any case the operator's income and expense per item are not altered as a result of the oil company advertising.**

This will give relief from problems such as those described in Chapter 34 (7).

- (k) to do such advertising on his business premises or elsewhere as he sees fit, and he shall not be obligated by contract or otherwise to advertise exclusively the name or brand of any company or to refrain from advertising the product or merchandise of any brand or company.**

The right of the operator to advertise on his own premises is severely limited at present by contract. The operator's problems in this connection are detailed in Chapter 16. In Great Britain on the recommendation of The Monopolies Commission the government implemented a measure of restriction on the oil companies. There, the landlord petrol company is entitled to put general terms controlling advertising in its lease agreements. This would entitle the landlord to say "No free standing signs, no wall signs, no banners." If the landlord does so, then the ban applies to advertising of the landlord's products as well as the products of other companies. The landlord petrol company is not permitted to discriminate. The Committee considers that the service station operator who runs his own business should be free of advertising restriction of any kind so that he can make his own decisions on what will appeal most to his customers and what is best for his business.

- (l) to buy and sell any gasoline he chooses whether brand name or off-brand;**

One of the findings made by the Monopolies Commission of Great Britain in its report was that —

" . . . the restrictive agreements and arrangements made by petrol suppliers with retailers operate and may be expected to operate against the public interest."



As a result of this finding the Monopolies Commission recommended that the term of such restrictions be reduced to a maximum of five years.

Professor T. Barna, a member of the Monopolies Commission, agreed with the finding of fact but dissented as to the solution because in his opinion it would not solve the problem. In dissenting from the Commission's conclusions he stated:

"In my view all exclusive selling arrangements in the actual circumstances of the industry today operate and may be expected to operate against the public interest."

"I therefore recommend that all arrangements under which retailers accept restrictions as to the brands of petrol which they stock and sell be abolished."

The Committee agrees with Professor Barna that such restrictions are not in the public interest and should not be permitted for five years. We recommend complete prohibition of exclusive buying provisions.

**(m) if he has more than one set of tanks and pumps, to dispense one brand of gasoline from one set of tanks and pumps and another brand or an off-brand from the other set or sets of tanks and pumps.**

In the same way that a drug store offers the shopper half a dozen brands of perfume, or a super market gives its customer the choice of several brands of peas, or a furniture store handles the appliances and furniture of several different manufacturers, it would be possible for a super service station to have five sets of pumps and to offer the motorist a choice of the four brands of gasoline refined in Alberta, plus an off-brand. Service stations selling more than one brand were common in Britain for many years until the oil companies using the incentive of "loyalty rebates" succeeded in obtaining "solus" agreements which now tie most stations in that country. The main obstacle which exists at present is the oil company contract under which a dealer can't obtain a supply of gasoline from a company unless he agrees to handle that company's brand exclusively. The absence of such a contract could lead to much more economical and efficient marketing of gasoline.

### **Prohibitions and Restrictions**

In order to give effect to the proposed rights for retailers, they should be supported by some complimentary prohibitions and restrictions applicable to oil companies or other suppliers of petroleum products. The Committee accordingly recommends enactment of legislation to give effect to the following provisions.

1. No oil company or other supplier of petroleum products shall have any voice or control direct or indirect in the conduct, management, hours of opening, or products handled by any retail gasoline outlet in Alberta unless such supplier operates the retail outlet, invests all the capital required by the retail outlet, takes all risk of business losses in the retail outlet and employs all personnel required to operate the retail business.

2. Any provision of any contract which directly or indirectly deprives a retailer of petroleum products in Alberta of any of the rights hereby conferred or has the effect of depriving him of such a right should be declared to be null and void and not to be binding upon or enforceable against the retailer.

3. Each contract between an oil company or other supplier of petroleum products and a retailer of petroleum products in Alberta, shall be a separate and independent transaction, and:—

(a) it shall not be terminable by reason of failure to perform another contract between the same parties, and

- (b) breach of one contract shall not be deemed to be breach of any other contract between the same parties,
- (c) performance of the contract shall not be conditional on performance of any other contract between the same parties.

4. Any restriction or covenant that runs with land which restricts the use of the land in Alberta to the sale of the petroleum products of a particular oil company or of a particular brand should be declared to be null, void and of no effect.

5. No oil company or supplier of petroleum products may make the sale or supply of any petroleum product in Alberta conditional upon the retailer buying from the oil company or from a supplier suggested by the oil company all or any part of the retailer's requirements of tires, batteries, accessories or other merchandise.

6. The supply of any product or merchandise to a retailer of gasoline in Alberta shall not be contingent or conditional upon the purchase by the retailer of any other product or merchandise.

7. No oil company or other supplier of petroleum products shall offer or grant any discount, rebate, price concession, inducement or other benefit or advantage to a retailer in Alberta on condition that the retailer buy the supplier's products exclusively or on condition that the retailer buy from it all or a specified quantity or percentage of the retailer's requirements.

8. No oil company or other supplier which provides petroleum products or other merchandise to a retail gasoline outlet in Alberta shall require the retailer to post its signs or advertising exclusively, or to advertise its name, brand name, or products exclusively, or limit or restrict the retailer from displaying any advertising he chooses.

9. No contract between an oil company or other supplier and a retailer of petroleum products shall cover a quantity or volume of any product or item in excess of the quantity or volume normally sold by that retail outlet in a three month period.

10. No oil company or other supplier of petroleum products shall refuse to supply gasoline or any other petroleum product to a retailer for any cause other than non-payment for such products, and in the event of a shortage of supply, the supplier shall not discriminate between retailers but shall endeavor to supply all of them as fairly as reasonably possible on a pro rata basis.

11. No oil company shall include in a supply contract or in any agreement executed in connection with the making of a supply contract with any retailer or wholesaler in Alberta, or otherwise make the supply of any petroleum product contingent upon the retailer or wholesaler granting to the oil company an option or right to purchase or rent any of the properties, facilities or equipment of the wholesaler or retailer, and any provision of any contract granting such a right should be declared to be null and void and not binding upon or enforceable against the wholesaler or retailer. (This is similar to one of the terms of judgment in the West Coast Oil Case in California.)

12. Any provision of any contract of an oil company or other supplier of petroleum products which is in conflict with any of these prohibitions or restrictions should be declared to be null and void and not enforceable against any other party to the contract.

## CHAPTER VIII THE EFFECT OF TERMINATING EXCLUSIVE DEALING IN ONE BRAND OF GASOLINE

The impact of the proposed changes in the relationships between oil companies and service station operators should not be exaggerated.

Demand for refined petroleum products is relatively inelastic.

The population of Alberta will not be altered thereby, the number of motor vehicles per capita will remain the same, the number of miles driven per vehicle will not vary, and the total gasoline consumption should be approximately the same, irrespective of the proposed changes.

To supply the demand, the four companies which own refineries in Alberta are now all working at or near capacity. Their total production will continue to be required to meet the existing demand, notwithstanding proposed changes in relationships with service stations.

The freedoms proposed for service station operators will not seriously affect either the total demand for gasoline or the available sources of supply from which such gasoline can be obtained.

Retailers who have handled a particular brand of gasoline for a number of years and have been satisfied with their relationships with their supplier are unlikely to change to another supplier whose products and services are very similar to those of the company with which they have been accustomed to deal.

The mere fact of freedom of choice will remove the complaints of many operators and should lead to an over-all improvement in the quality, service and prices available to service stations from competing suppliers.

Whether operators are relieved from the contract tie which requires them to buy one brand of gasoline exclusively will have little bearing on the quantity of gasoline sold. If some service station operators switch brands the product exchange agreements between refining divisions and marketing divisions of various companies could automatically compensate for variations in channels of distribution and marketing.

How frequently service station operators would switch brands if they were not bound by contract to purchase one brand exclusively, is an unanswerable question.

Having regard to similarities in marketing practices of the oil companies, and to the very limited choice of suppliers, and the problems associated with any change, it is improbable that there would be large scale changes in buying patterns. A dealer would be hesitant to change a brand for which his customers have a preference. If a service station operator is happy with the quality of the product he buys, the service he receives from his supplier, and his relationships with the oil company, there is no reason to assume he would make any change.

If, on the other hand, the service station operator is convinced he can get better products or service from another supplier, or his relationships with his oil company are unsatisfactory, then it is reasonable that he should be free to try to improve his situation.

Apart from the prospect of switching from one brand to another brand, there is the possibility of having more than one brand available at a single station.

One is inclined to hesitate when such a concept is first considered, because it is outside the normal experience in this area. The principal reason it does not happen now is simply the exclusive buying provision which each of the companies includes in its contracts. In Great Britain there were "mixed sites" where a single retailer offered a choice of brands. About 1926 when the "cartel" companies decided to strengthen their position in marketing and to work for the "solus" system which involved a retailer marketing the petroleum products of one company exclusively, they offered retailers a "loyalty



rebate". The oil companies adopted a pricing system which gave retailers who took petrol exclusively from one company, a margin of 2½d. per gallon whereas retailers who marketed more than one brand received only 1½d. per gallon.

Professor T. Barna, of The Monopolies Commission in Great Britain stated:

"At that time many retailers wanted to sell cut-price petrol through an additional pump. By installing an extra pump or by converting one out of three or four existing pumps to cut-price petrol they expected to increase turnover. The leading companies were aware that if this were to happen the customer would soon discover that cut-price petrol is just as good as their petrol and consequently their sales would fall. The loyalty rebate has proved a powerful weapon since the retailer's additional sales through selling cut-price petrol would have been offset by the loss of 1d. per gallon on his previous volume of sales of full-price petrol."

By offering loyalty rebates during the period from 1926 until World War II, the oil companies induced many stations to sign "solus" agreements and to handle the products of one oil company exclusively. Generally, the "mixed sites" sold several brands which were usually those of the major companies, but it was less common for a station to offer both full-price and cut-price petrol.

Professor T. Barna stated:

"Tests by Consumers' Association have shown that difference between brands of petrol are grade for grade insignificant and most consumers are probably aware of this fact (although they may be less aware of the fact cut-price petrol is just as good as full-price petrol)."

"The real choice of the consumer is not between brands of petrol sold at the same price but between brands sold at the standard price and cut-price petrol. Consumers' choice cannot become effective until petrol stations, . . . are allowed to stock and sell cut-price petrol along-side other petrol."

Committee calculations indicate that all the costs of exploring, discovering and producing oil are about 3c per gallon, and the costs of refining are approximately an additional 3c per gallon.

By comparison, the cost of marketing was calculated at about 5c per gallon and the cost of retailing in a service station is about 7c per gallon. In other words marketing and retailing costs are about twice as much per gallon as producing and refining costs.

To a very large degree the high costs of marketing and retailing are accounted for by the system of "tied" outlets with

- (a) large numbers of unnecessary service stations,
- (b) the subsidization of lessee outlets,
- (c) costs of credit cards included in the wholesale cost of gasoline and paid for by many people who do not use them,
- (d) high costs of advertising promotions and giveaway programs,
- (e) an absence of price competition in sales from oil companies to service stations and consequent high prices, and
- (f) too many marginal service stations which are inefficient in their use of capital and labor resulting in high retail costs per gallon of sales.

Chap. 25(1)

Chart 24

Chap. 15(5)  
Chart 83

Chap. 16(5)

Chap. 20(2)

Chap. 23

The economies to be obtained from having one large volume station offering a choice of six brands, instead of six separate marginal stations each selling one brand, are obvious.

An oil company is under no obligation to lease a service station or the equipment for dispensing petroleum products that it contains. It is free to operate its own service stations with its own employees selling its own products if it chooses to do so.

However, if an oil company chooses to lease a service station it owns to an independent business man who invests his money and assumes the risks of business losses, the business man should then be reasonably free to operate his business as he decides. He should not be subject to interference or control by the oil company. So long as he pays his rent and looks after the property he should have reasonable tenure. So long as he pays for the products he buys, his supplies should not be unreasonably interrupted.

The oil companies may suggest that it is unreasonable that service stations and equipment they own should be permitted to be used in marketing a competitive brand of product. The Committee considered it more unreasonable that a man who has invested his life savings in a business can obtain no more security of tenure than thirty (30) days. There are numerous other contracts and practices which give oil companies unreasonable powers over their lessees. The landlord of a house who does not have a monopoly in housing does not attempt to control his tenant's hours of work, or to direct what supermarket the tenant should use to buy his food, or what brand of furniture he should buy. The oil companies which control the supply of gasoline use their monopolistic supply position and their powers as landlords to control and direct many business operations of their tenants.

The Committee has given serious consideration to its recommendations respecting contract rights and property rights. However, in our opinion it is a question of priorities. The choice is between conditions which contribute to the business failure of persons, at a shocking rate, or conditions which permit the property of an oil company to be used to sell a competitive brand for the balance of the term of a freely granted lease. The choice is between human rights and property rights, and the question is whether people should have priority over property.

If an oil company chooses to lease its property and induces a tenant to invest his savings in the business to be conducted on that property, then there are circumstances where the person's right to protect his living, his savings, and his business, should prevail over the oil company's rights to limit the use of its property.

If an oil company has bound a lessee to buy its product exclusively and then builds another station in the same block or across the street which cuts his volume in half so that he is facing business failure, the man should have the right to switch brands to protect his living and his savings.

If an oil company by its advertising is constantly committing its operators to perform free services they can't afford to pay for, or to sell merchandise at a loss, or to pay for advertising promotions they don't want, the operator should have a right to switch brands.

The mere existence of such a right would make it unnecessary in most cases to exercise it. Each oil company in such circumstances would have to examine any marketing action it was considering from the point of view of how it would affect their operators and what their reaction might be. Under the present system of tied outlets this is irrelevant and doesn't have to be considered. The operator's only choice in present circumstances is to do as the oil company directs or to be put out of business and face the inevitable losses.

An oil company which has leased a service station and equipment would not suffer irreparable damage if a tenant switched brands and was able to use the leased equipment to sell other products for the balance of the lease. A tenant whose lease is terminated on thirty (30) days notice loses a business in which he has invested from four to ten thousand dollars, loses part of his investment, loses his livelihood, loses his goodwill, and his equipment is sacrificed at depreciated values on a forced sale basis.

The oil company practice of subsidizing the rents of its lessees is discriminatory against owned outlets which cannot survive in such circumstances.

If the tenant was entitled to a five year term and was free to change the brand of gasoline he handles, the incentive to the oil company to subsidize lessees would be removed and the practice would cease.

There would be no restriction on the rights of an oil company to own real estate, or to build service stations, or to hire employees to operate their service stations.

However, in leasing a service station they would have to recognize the possibility that the tenant might not always sell their petroleum products, so they would charge a rent which would produce a reasonable return on their invested capital.

To retain their tenant's business as a customer of petroleum products in the absence of the compulsion of contract ties they would have to start treating him as a human being, give him the consideration that other sellers give their customers and cease the harsh and oppressive tactics that are now possible and commonplace.

The principal foreseeable consequence of enacting such legislation is that the oil companies in dealing with service station operators will have to face the unfamiliar problems of free enterprise and competition.



## CHAPTER IX SUMMARY OF RECOMMENDATIONS

Chart 3

There are three basic markets for gasoline in Alberta.

The automotive market for gasoline which exceeds the other two combined and which commands the highest price per gallon is responsible for the majority of problems the Committee investigated in gasoline marketing.

The farm market which accounts for 32% of the gasoline used and the industrial commercial market which accounts for 12% of the gasoline used is largely served by 1,140 bulk agents or farm dealers. The Committee considered the procedures and practices for the marketing of gasoline and petroleum products by bulk agents and farm dealers and our findings are reported in Chapter 37.

The most serious problem we encountered was the responsibility for credit, and the nature of the problem and the recommendation made is found in Chapter 38.

The second most serious complaint related to handling commission. We studied this subject and our conclusions and recommendations are found in Chapter 39.

In considering the problems of lessee turnover and our price recommendations, it was apparent that some changes in the licensing procedures would be helpful and would support the other recommendations we are making. Our licensing recommendations are contained in Chapter 51 Item (6).

Chap. 40(1)  
Chap. 40(2)

Rural gasoline outlets have some special problems which are peculiar to them. The change in The Fuel Oil Tax Act permitting farm trucks to use purple gasoline on highways had a serious impact on rural service stations.

Chart 113

The right to use tax free gasoline on the highway is a valuable privilege as it enables the user to purchase gasoline for approximately 20c a gallon less than the price paid by other motorists. It is in the public interest that such a right should only be used by those who are properly entitled to it. We recommend some changes in the administrative procedures for purchasing tax exempt gasoline and farm license plates which should help to reduce the illegal use of purple gasoline.

Chap. 41(4)

### Summary of Recommendations

In summary the following are the major recommendations of the Committee:

Chap. 24(11)

- (a) as a preventative measure to help reduce the rate of lessee turnover and to reduce the loss of lessee investment, — the provision of essential information to prospective lessees in a service station prospectus;
- (b) to provide the service station lessee with reasonable security for his investment and his business operations, — by requiring a five year lease which is not terminable except in designated circumstances;
- (c) as a solution to some problems of the continuing operator, whether lessee or owner, — a service station operator's Bill of Rights to afford him some freedom of enterprise and a measure of protection against the arbitrary actions of oil companies which now vitally affect his business profits and security;
- (d) as a step toward the solution of discriminatory pricing practices, — the prohibition of some oil company practices which create ties or eliminate competition, and the removal of some obstacles created by oil companies which help to prevent price competition;
- (e) as a solution to the credit problem of agents operating bulk stations, — credit to be declared to be the responsibility of the oil company where it properly belongs and the bulk agent to be relieved from guaranteeing the debts of all of his customers;

Chap. 36(4)

Chap. 38(3)

- (f) as a solution to problems in the enforcement of the intentions of the Fuel Oil Tax Act, — that persons entitled to the privilege of purchasing gasoline which is wholly or partially exempt from tax be given a permit which will entitle the holder to make such purchases and to obtain "F" vehicle licenses where applicable;
- (g) as a step toward improving the usefulness and accuracy of government records, by keeping some records by company rather than by industry, and by requiring annual licensing of service station operators, bulk outlets, wholesalers and refiners
- (h) as a step toward providing the government with more adequate information on which to base its decisions, the establishment of a continuing organization to conduct economic research and to assemble and coordinate information on energy resources and other matters affecting the economy of the province

Chap. 41(4)

Chap. 51(6)

Chap. 51(5)

This report is respectfully submitted.

The Gasoline Marketing Enquiry Committee

*Kenneth A. McKenzie*  
*Arthur Fitzpatrick*  
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## PART 1

### INTRODUCTION

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# PART 1

## INTRODUCTION

### CHAPTER 1. MARKETS FOR GASOLINE IN ALBERTA

#### (1) Population and Income

In Alberta during the ten year period from 1955 to 1965

- (a) the population increased by 33%,
- (b) personal income increased by 103%,
- (c) per capita income went up by 53% (Chart 1).

Of the province's 1,463,000 people, in 1966

- (a) 48 per cent live in Edmonton and Calgary,
- (b) 23 per cent live in smaller communities,
- (c) 29 per cent live in rural areas.

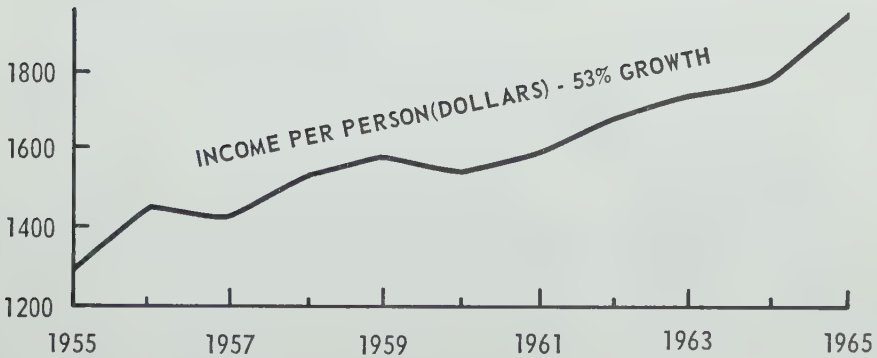
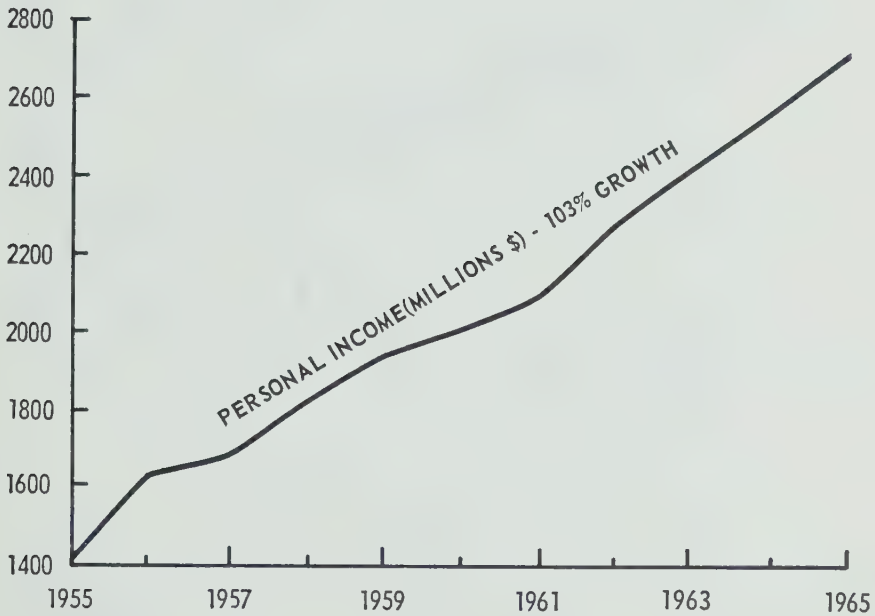
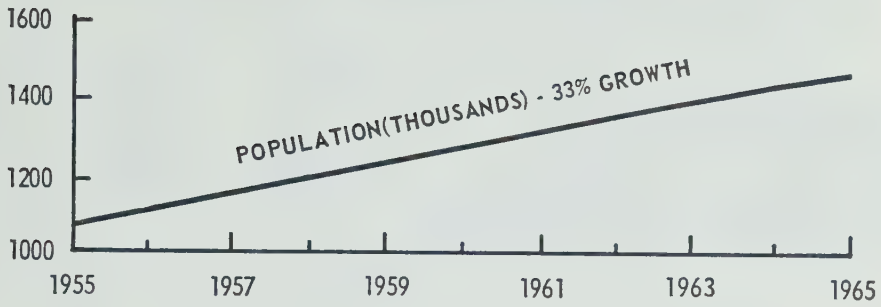
This uneven population distribution between large urban, small urban, and rural areas has both advantages and disadvantages for a company continually supplying products and services to all parts of the province. The concentration of population around Edmonton and Calgary provides large metropolitan markets that are relatively easy to serve, while the rural and small scattered markets pose some transportation and distribution difficulties.

Edmonton and Calgary now account for 48 per cent of all retail gasoline volume in the province.

CHART 1

# POPULATION AND INCOME

ALBERTA 1955 - 1965



SOURCE: ALBERTA BUREAU OF STATISTICS



**(2) Motor Vehicle Registrations**

In Alberta during the ten year period from 1955 to 1965

- (a) motor vehicle registrations went up by 68% and passenger cars by 79% (Chart 2),
- (b) consumption of gasoline in Alberta has increased by 52%, as is shown in the following table:

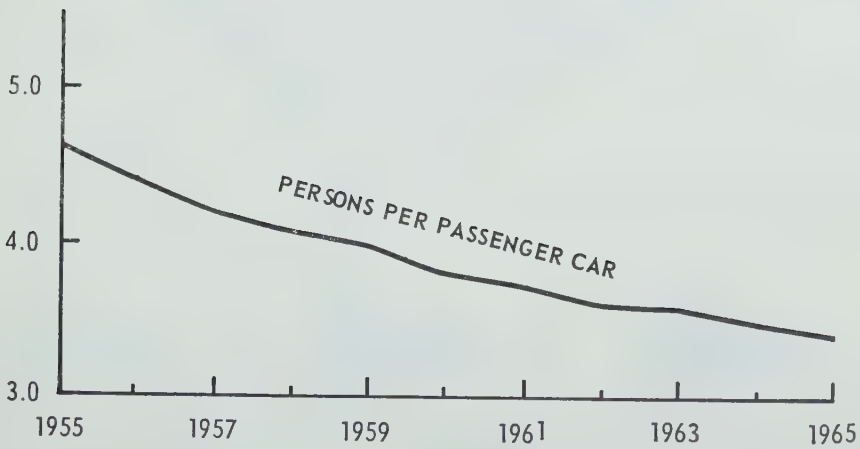
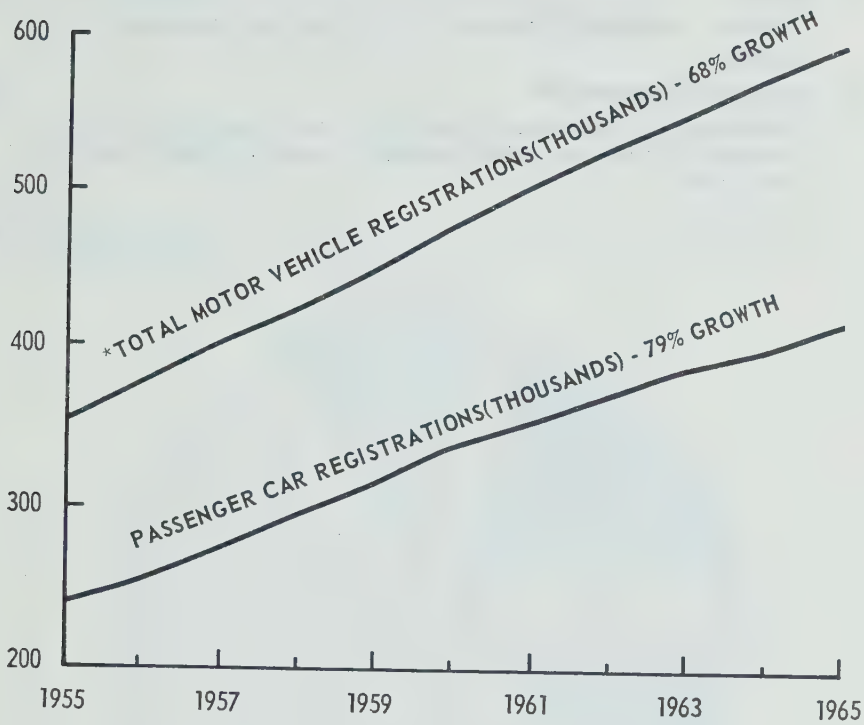
	000 Gals. 1955	000 Gals. 1965	% Increase
Taxable Gasoline .....	203,120	335,857	65%
Non-taxable Gasoline* .....	97,548	120,593	24%
Total Gasoline .....	300,668	456,450	52%

\* Principally gasoline sold in the farm market.

CHART 2

# MOTOR VEHICLE REGISTRATIONS

ALBERTA 1955 - 1965



\*EXCLUDES MOTORCYCLES  
 SOURCE: ALBERTA BUREAU OF STATISTICS

### (3) Three Basic Markets

There are three basic markets for gasoline in Alberta:

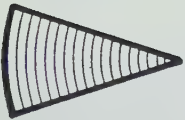
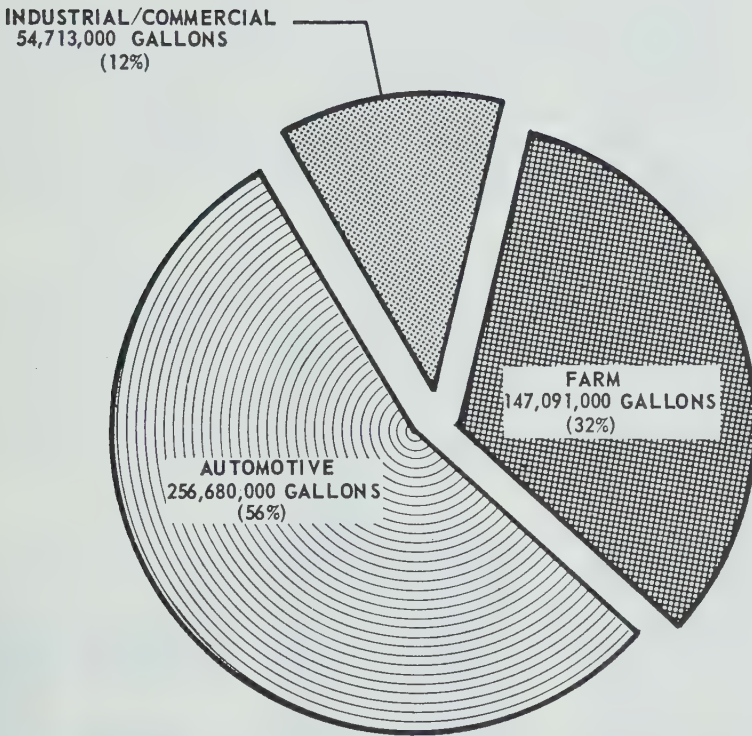
(a) <b>Automotive</b> .....	56%
Motorists purchase 56 per cent of all gasoline from dealers operating 3,139 retail outlets,	
(b) <b>Farm</b> .....	32%
Farmers purchase 32 percent from 1,140 bulk agents or farm dealers,	
(c) <b>Industrial/Commercial</b> .....	12%
Governments, contractors, industries and commercial firms purchase 12 per cent in bulk quantities usually directly from oil companies.	
<b>TOTAL</b> .....	<hr/> 100%



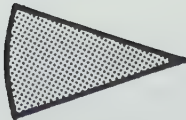
CHART 3

## VOLUME OF GASOLINE SALES

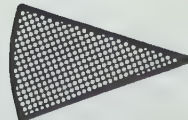
CLASSIFIED BY TYPE OF MARKET - ALBERTA 1965



AUTOMOTIVE



INDUSTRIAL/COMMERCIAL

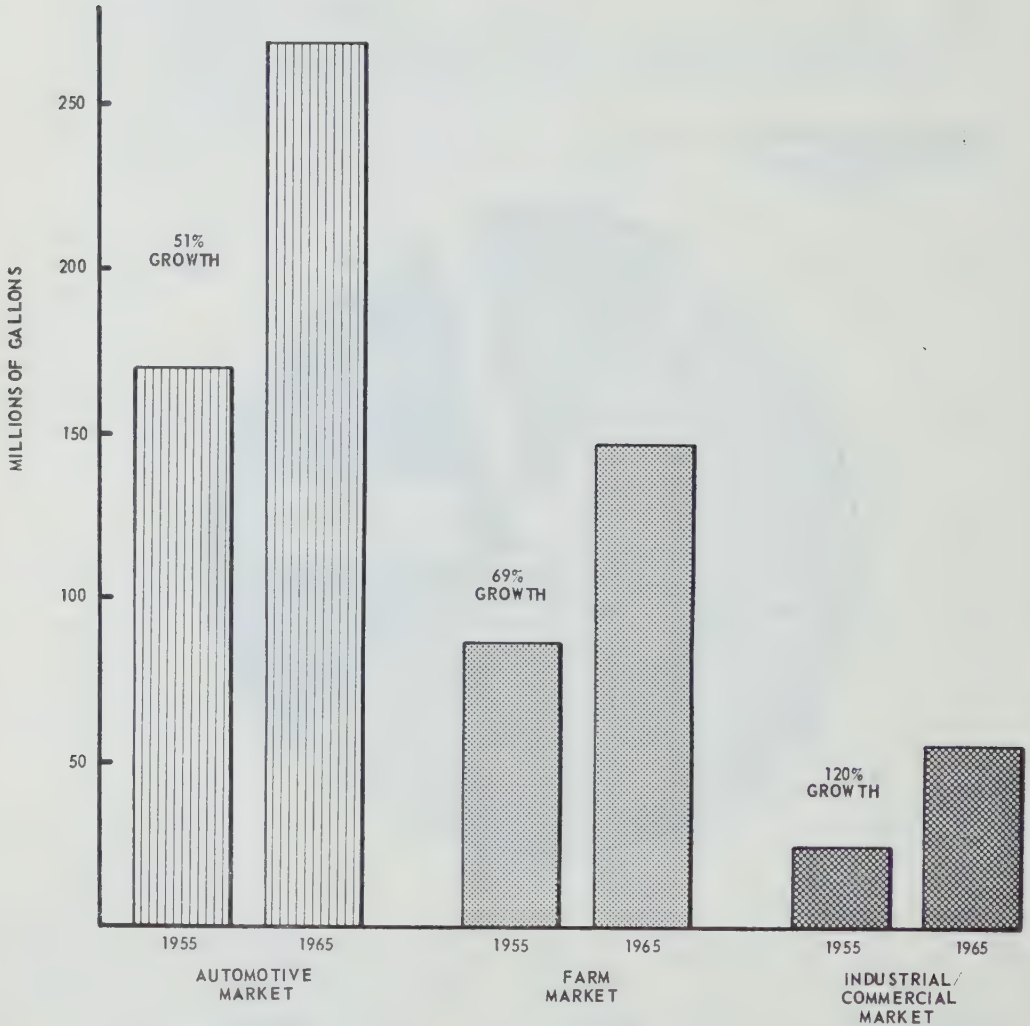


FARM AND OTHER CONSUMERS

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

CHART 4

# GROWTH OF ALBERTA MOTOR GASOLINE MARKET 1955 COMPARED TO 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

Growth in gasoline demand has been largest in the automotive or passenger car market, served by service stations and other retail dealers as illustrated in Chart 4.

## CHAPTER 2. HISTORICAL DEVELOPMENT OF GASOLINE MARKETING

Before the advent of the automobile, gasoline was relatively unimportant, being used mainly for cleaning. Pending the development of an automotive demand for gasoline, all refiners faced the problem of disposing of an expanding volume of gasoline, a by-product of increases in kerosene and fuel oil production.

The first automobiles were produced at the turn of the century, but their small numbers originally did not make any impact on the distribution systems of the refiners. The total U.S. motor vehicle registration in 1899 was only about 8,000. By 1907 there were 143,000; in 1911 640,000; 1919 7.6 million. The growing importance of motor fuel brought rapid changes in the physical methods and facilities for the distribution of gasoline. Initially, existing kerosene outlets such as grocery stores, hardware dealers, and drugstores added gasoline to their product line, while other retail outlets such as bicycle shops, implement dealers, and general repair shops also began to distribute motor fuel. As the automotive demand for gasoline increased, it became increasingly apparent that there was a need for better means of storing and dispensing gasoline. Storage tanks were moved to the front of the shops and with the development of the gasoline pump in 1911, the barrels or open tanks were put underground to reduce danger of fire and evaporation.

Since the early automobile spent much of its time in repair shops, garages emerged as important sellers of gasoline. Because of their strong market position, garages were able to command special discounts and charge high prices. Further, they were able to blame motor trouble and poor repair work on "inferior" gasoline, much to the dismay of many in the oil industry. In 1919, an official of Standard Oil of Indiana summed up the feeling of many in the industry when he called the garageman a "parasite", and added that the customer would be better off without his service as a gasoline retailer.

As a result of the dissatisfaction with the existing retail outlets, by both the motorist and producer, a more efficient and economical outlet emerged. Many motorists began driving to bulk plants for their gasoline. However, as the retail business expanded, bulk stations found that it began to interfere with their operations. It became obvious that there was a profitable opportunity for retail specialists in gasoline.

Standard Oil of California established a "drive-in filling station" in Seattle in the Spring of 1907, thus beginning the race to build filling stations which has continued to this day. Imperial Oil opened the first Canadian station at Vancouver in 1908. By the end of the First World War, 85% of all gasoline sold was retailed through filling stations and garages.

The operators of filling stations soon became aware of the additional profit potential available if they also provided services and products required by the motoring public. Service stations were developed, and they soon found themselves in the same dominant position as were the garages in the initial stages of the development of the industry. There was a major difference, however; the early garages were all independent; the service stations which succeeded them were to a great degree controlled by the gasoline producer.

The problems in the relationships between oil companies which produce gasoline and the operators of service stations who retail gasoline are the subject of this enquiry.





## PART 2

### MANUFACTURE SUPPLY & DISTRIBUTION OF GASOLINE

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## PART 2

# MANUFACTURE SUPPLY & DISTRIBUTION OF GASOLINE

### CHAPTER 3. REFINING DIVISION (INTEGRATED OIL CO.)

#### (1) Refining

Four "cartel" subsidiaries are the only companies engaged in refining in Alberta, and they operate six refineries.

Two other marketers operate refineries in neighboring provinces near our borders which supply a relatively small portion of our consumption. For instance the refinery at Taylor Flats, B.C. which is a source of supply for the Peace River Block, sells less than 4% of our requirements.

Virtually all gasoline sold in the province comes from these refineries as only 0.2% is imported from the U.S.

Table 1.  
Refineries, Province of Alberta, 1965

"Cartel" Subsidiaries			Nominal Refy. Capacity Bbbs./Day	Estimated Thruput Bbbs./Day
Ownership	Location	Established		
Imperial Oil	Calgary	1923	17,500	16,300
	Edmonton	1948	30,000	30,700
British American	Calgary	1939	9,000	11,200
	Edmonton	1951	12,600	11,900
Texaco	Edmonton	1951	15,000	13,700
Shell Oil	Bowden	1960	4,000	4,200
			88,100	88,000

#### Refineries in Neighboring Provinces

Other Refineries			Nominal Refy. Capacity Bbbs./Day	Estimated Thruput Bbbs./Day
Ownership	Location	Established		
Pacific	Taylor Flats, B.C.	1957	6,300	6,400
Husky	Lloydminster, Sask.	1947	5,200	5,000

Note: 1. One barrel is equivalent to 35 Imperial gallons.

2. Refinery throughput can exceed the nominal capacity by changing the type of crude and the method of operation.

Source: Gasoline Marketing Enquiry Records.

## **(2) Refinery Supply Areas**

As a rough generalization

- (a) the refineries of three "cartel" subsidiaries supply marketers in the southern part of the province up to and including Red Deer,
- (b) the refineries of three "cartel" subsidiaries located in Edmonton supply marketers in the central portion of the province North of Red Deer and South of the Peace River Block,
- (c) the Taylor refinery is a source of supply in the Peace River Area.

The lines designating the supply boundaries on Chart 5 are not fixed, but vary to accommodate the demand, the capability of each refinery to supply, and changes in transportation costs.

Refining is a continuous joint-product process, and gasoline is one of the more important products produced simultaneously from the one raw material, crude oil. Within certain limits a refinery may vary the quantity and quality of the products it produces from any one type of crude oil.

A characteristic of refining is the wide difference in operating costs per barrel (including both fixed and variable) between a large refinery and a small one. In ratio, operating costs fall as the size of the refinery increases. A small refinery with higher operating costs and lacking economies of scale is able to compete most effectively if it locates in an area remote from larger refineries which then face high transportation charges in moving products into that area.

CHART 5

## REFINERY SUPPLY AREAS - ALBERTA



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



### (3) Refinery Sales

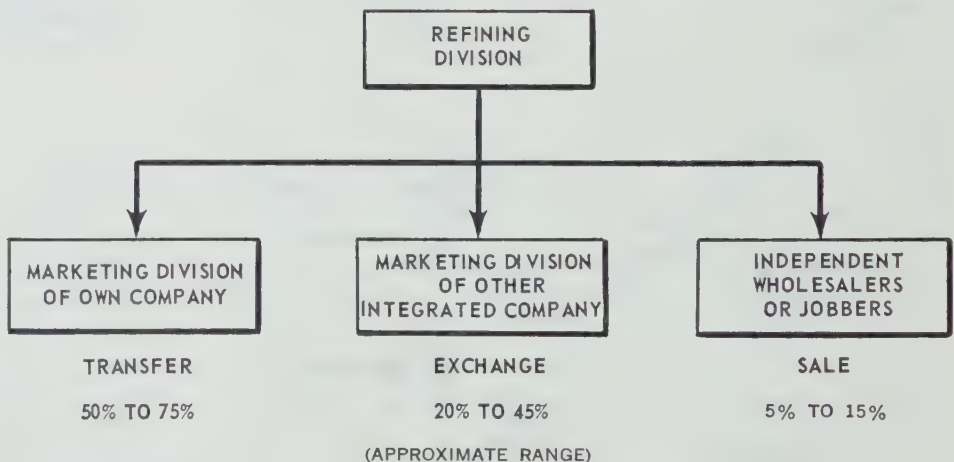
A substantial portion of the production of many refineries is disposed of by exchanges or transfers of product between various "cartel" subsidiaries or other integrated oil companies, e.g. a B.A. refinery may deliver to Shell marketing at one location in exchange for a Shell refinery delivering to B.A. marketing at another location. As such exchanges may involve different marketing regions they are usually handled by the "refinery sales" staffs who are usually located in the Canadian head office of the "cartel" subsidiary or other integrated oil company.

The gasoline produced by a particular refinery is largely disposed of in three ways as shown on Chart 6.

- (a) by **transfer** to its own marketing division;
- (b) by **exchange** to the marketing divisions of other integrated oil companies in accordance with product exchange agreements between the companies;
- (c) by **sale** to independent wholesalers or jobbers.

CHART 6

REFINERY DISPOSITIONS OF GASOLINE

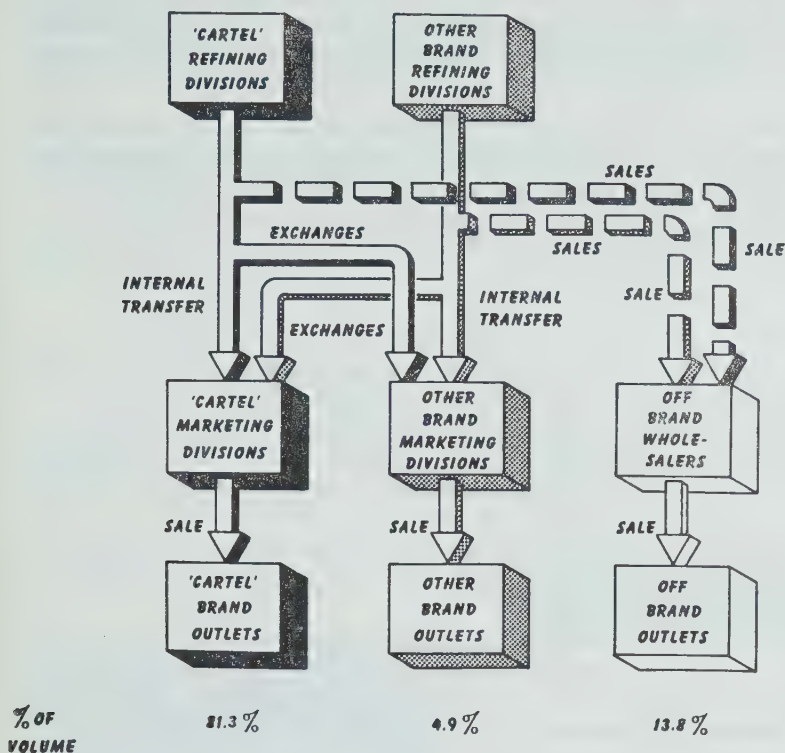


When the refining division of one integrated company is producing refined products for the marketing division of another integrated company, it is not always practical to do this by way of product exchanges, so there are variations in the forms of contract used, which are illustrated in Chart 7.

For instance B.A. might be the owner of crude and request the refining division of Imperial to process the crude on its behalf. In such a case there would be a processing agreement whereby Imperial would refine B.A.'s crude for a processing fee of so many cents per gallon. B.A. as the owner of a certain number of gallons of crude continues to be the owner of the resulting gallons of refined product, and in such a case there is no "sale" either of crude or of refined products.

## CHART 7 CHANNELS OF DISTRIBUTION

**FROM REFINING DIVISIONS OF INTEGRATED COMPANIES-ALBERTA 1965**



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

In another type of transaction the integrated company which desires to acquire refined products contributes neither crude oil nor refining facilities, yet it does not go through the form of purchasing refined products. For instance if Imperial owns crude oil and refining facilities in a particular location where Shell requires refined products, the parties may enter into two agreements, —

- (a) an agreement to purchase condensate; and
- (b) a processing agreement to process the condensate into fully refined products.

The condensate is the result of partially refining crude oil and no physical delivery is taken by the purchaser at that stage. It simply remains in the towers and pipes of the refinery and the processing is continued under the processing agreement to produce the fully refined products delivered to the purchaser. As this is a sale of partially refined products, plus a processing agreement to finish the refining for a processing fee of so many cents per gallon this isn't a "sale" of refined products which can be readily compared in price with other "sales" of refined products even though one company such as Imperial provided both the crude and the refining facilities and Shell as purchaser acquired nothing but refined products.

In addition to transactions between different companies such as those described, refineries belonging to the same company ship partially refined products from one to another which contributes to the most efficient utilization of both raw materials and refining facilities. For instance, an Edmonton refinery may ship substantial volumes of semi-finished products to an Ontario refinery of the same company for further processing.

## CHAPTER 4. MARKETING DIVISION (INTEGRATED OIL CO.)

### (1) Sources of Products

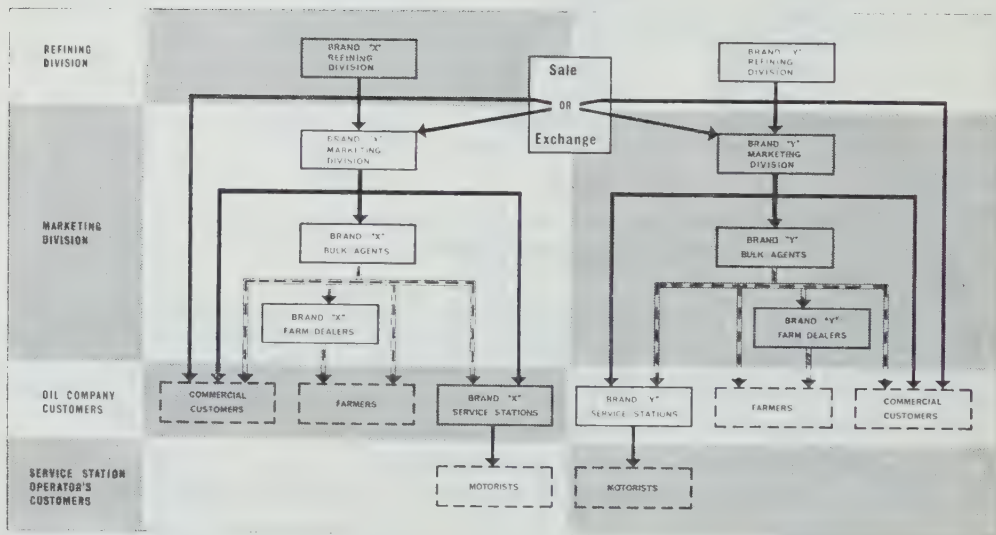
A marketing division acquires most of its gasoline in one of two ways:—

- (a) by **transfer** from a refinery of its own refining division,
- (b) through **exchanges**, or processing agreements, etc., from the refineries of other integrated oil companies in accordance with product exchange agreements, or processing agreements between the companies.

A marketing division of an integrated oil company performs the functions of a wholesaler, taking delivery from the refining division or manufacturer, and delivering to retailers or others entitled to buy at wholesale as illustrated in Chart 8.

CHART 8

CHANNELS OF DISTRIBUTION  
OF  
REFINED PRODUCTS



### (2) Transportation

The marketing division determines the transportation method to destination which depends on the most efficient and economical carrier. The principal transportation methods are:

- (a) large tank trucks, travelling by highway (6,400 gals)
- (b) tank cars, travelling by rail.



The method of delivery depends on railway and highway connections and the relative economics. If the person receiving the delivery can accept full tank truck volume, is within 100 miles of a refinery, and there is a good highway connection he may be supplied by tank truck. Most service stations meet these requirements so a majority of service stations are supplied by tank truck deliveries direct from the marketing division. Tank truck deliveries may also be made directly by the marketing division to the storage of bulk agents, and to the storage of large industrial and commercial consumers, any of whom are within reasonable range of the refinery.

Generally if the point of delivery is further than 100 miles from the refinery, or if highway access is difficult and railway access is good, then the delivery will be to storage facilities that can be supplied by railway tank car. Such storage facilities are usually those operated by a bulk agent, or may belong to large industrial or commercial consumers.

### **(3) Channels of Distribution and Sale**

The channels of distribution and sale within a Marketing Division vary according to the volume the customer wants to purchase and the distance from the refinery supply point where the purchaser takes delivery.

Depending on circumstances various consumers may buy at various levels, purchasing directly from:

- (a) a marketing division, or
- (b) a bulk agent, or
- (c) a retail dealer or farm dealer.

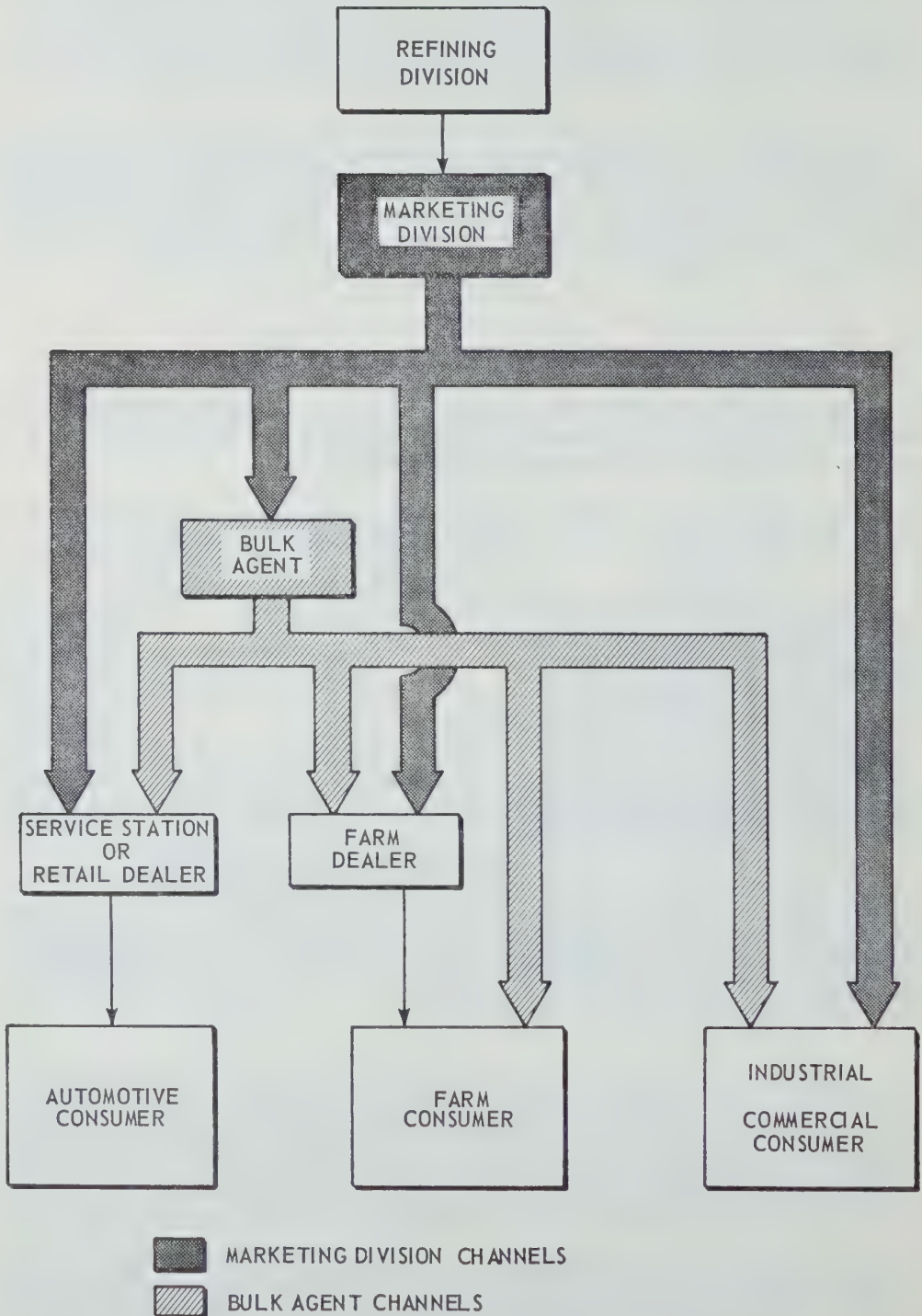
The channels of sale may not always correspond with the channels of physical distribution. The various channels of distribution and sale are shown on Chart 9.

A large industrial consumer taking a bulk quantity for delivery near to the refinery may buy from the marketing division and receive delivery from the marketing division. The same consumer taking a similar quantity for delivery in a more remote area may buy from the marketing division and receive delivery from a bulk agent. Industrial consumers requiring smaller quantities may buy from a bulk agent, and take delivery from that agent.

A large service station in the same city as a refinery buys from the marketing division and takes delivery from the marketing division without the intervention of a bulk agent. A similar size of service station in a location remote from a refinery may buy from a marketing division and take delivery either directly from the marketing division or through a bulk agent. Small retail outlets in remote locations may buy from a bulk agent and take delivery from that agent.

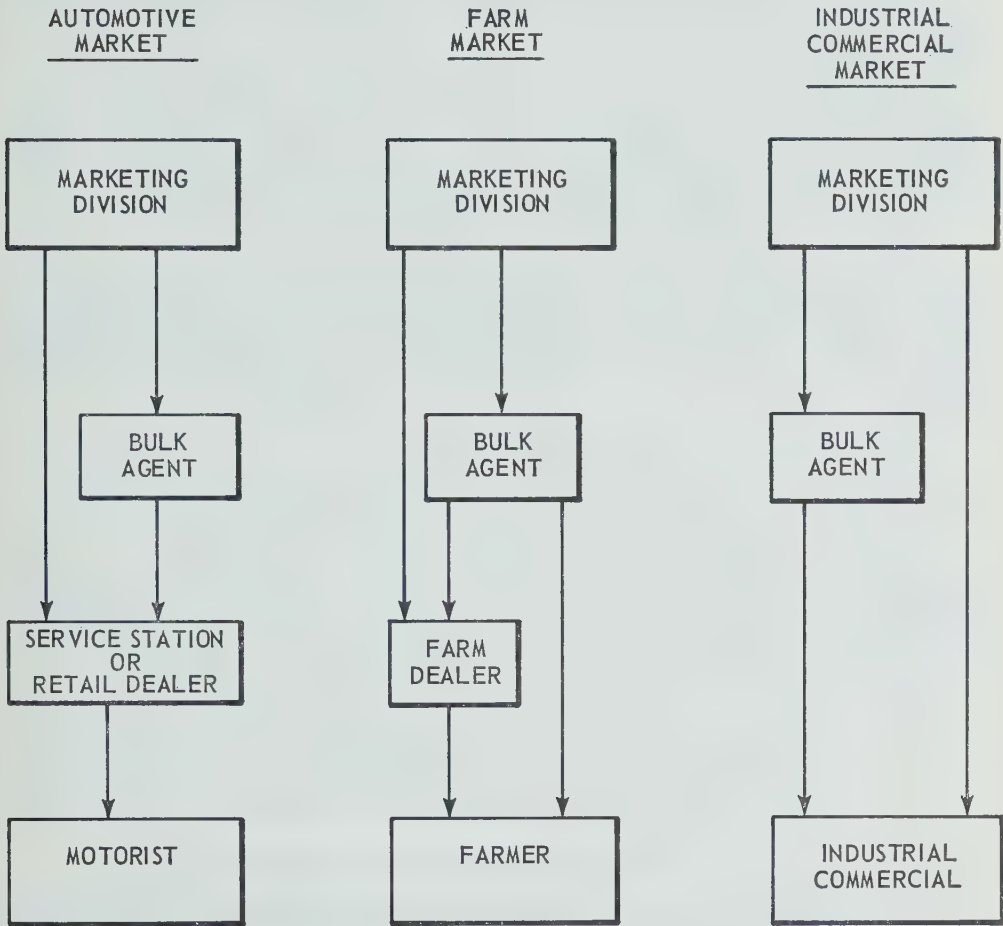
CHART 9

## CHANNELS OF DISTRIBUTION AND SALES



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS.

## CHANNELS TO THE THREE MARKETS



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS.

### (4) Channels to The Three Markets

**The Automotive Market,** the motorist, is supplied only at the retail level by service stations or other retail outlets, which deliver to the tank of the motorist's vehicle.

**The Farm Market** is supplied by small bulk deliveries, made by a bulk agent or by a Farm (Retail) Dealer, and deliveries are in barrels or by tank truck into small storage tanks.

**The Industrial Commercial Market** is supplied by larger bulk deliveries, made directly by the marketing division or by a Bulk Agent into larger storage tanks.



## (5) Sales Organization

The major integrated oil companies each use a division known as the "marketing division" to sell and distribute their products and in each company the organization of this division is similar.

There is a manager of the marketing division whose responsibility is marketing throughout Canada, and he and his staff are located in the Canadian head office of the Company.

Canada is divided into "regions" where the products required and the economics of distributing them have many features in common. The major marketers appear to have large regions such as an Atlantic region, a Quebec region, an Ontario region, a Prairie region, and a Pacific region. There is a regional manager in charge of marketing in each region supported by a large staff.

Within each region a portion of the sales staff will be responsible for direct sales by the marketing division to its own customers such as governments, the larger commercial and industrial accounts, and other large volume customers. Another portion of the sales staff is responsible for the re-sale sales such as sales to service stations which are purchasing for re-sale to the motorist as the ultimate consumer.

Each region may be further subdivided into districts with district managers and areas with area managers in charge of each.

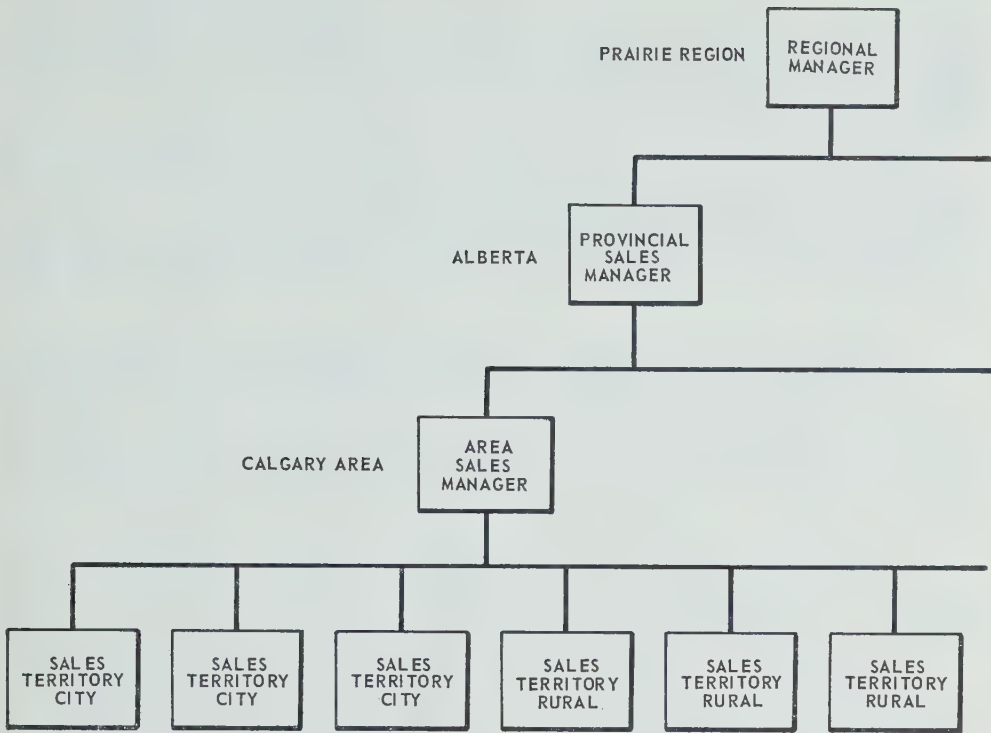
The sales area for which each area manager is responsible will be divided into sales territories with a sales representative in charge of each territory.

The sales representative performs two roles, that of salesman, and that of supervisor and inspector. As a salesman he

- (a) sells petroleum products and other merchandise to the dealer,
- (b) introduces new products and retailing methods to the dealer and assists in the improvement of product knowledge and retailing skills,
- (c) assists the dealer with local sales promotion,
- (d) arranges for the dealer's participation in company sponsored promotions and advertising.

As a supervisor and inspector for the oil company, the representative

- (a) assists the dealer by offering business counselling and analysis and advising respecting the use of yardsticks to measure efficient service station operation,
- (b) acts as a channel of communication from the company to the dealer and from the dealer to the company,
- (c) makes recommendations as to hours of opening and assists with applications for extended hours,
- (d) encourages the dealer to strive for approved standards of housekeeping,
- (e) inspects the premises to check the observance and enforce the performance of provisions of various agreements such as the advertising that may be displayed, the products that may be offered for sale, and other restrictions,
- (f) advises the dealer of rental increases proposed by the oil company and obtains the dealer's signature on new or revised leases and other agreements,
- (g) appraises the attitude, skills, housekeeping and performance of dealers and reports to the company; and
- (h) checks the activities of competitors within his sales area and advises his company.

TYPICAL SALES ORGANIZATION

**As a salesman** the sales representative

- (a) is responsible for a sales territory, and
- (b) sells to all retail outlets in his sales territory.

**As a supervisor and inspector** for his oil company the sales representative

- (a) is the channel of communication from the company to the dealer;
- (b) enforces company policies and contracts with the dealer.

The sales representative may also make recommendations on a number of subjects where decisions may be made by the area sales manager or other company officials. He may make recommendations on such matters as

- (a) the appointment of new dealers,
- (b) the termination of leases or franchises of dealers whose performance is unsatisfactory; and
- (c) the acquisition or establishment of new outlets in his sales territory.

The size of the territory of a sales representative and the number of stations it contains varies within companies and as between companies. One sales representative may have a small urban territory with as few as ten large stations that are close together so that he can call on all of them each week. Another sales representative may have a large sparsely populated rural territory with as many as eighty widely separated outlets each having a small volume, so that he calls on the larger volume ones about twice a month, and the smaller ones two to four times per year, and some not at all.

If the oil company has problems with a particular outlet it is possible for the sales representative and his area manager to devote more of their time to that outlet during the problem period and it may be called upon daily.

The service station operator's main contact with the oil company is the sales representative.

In relationships between oil companies and their service station operators, it is obvious that the training, background, and attitudes of the sales representative may have a very important bearing. An inferior sales representative who fails to properly interpret his company's policies, or is more extreme than his company has authorized him to be, can create many problems for the operators within his territory. Operators have difficulty distinguishing whether the representative is speaking in his role as a salesman, or in his role of enforcing company policy.

For instance, some service station operators complained that they were required to carry a greater stock of some items of merchandise than they wished to buy or stock. Upon examining the operator's lease it was found to contain a clause reading "... the lessee shall conduct the filling and service station business on the demised premises . . . in accordance with the instructions of . . . the oil company . . . with respect to . . . completeness and sufficiency of stock-in-trade carried . . ." The operator was unable to tell whether the sales representative was simply trying to make a sale, or whether he was communicating oil company policy on "sufficiency of stock-in-trade carried" that the operator was bound to follow.

One company advised that the average tenure of its sales representatives was five years, some having been employed for only a few months and others for several years.



## **CHAPTER 5. DISTRIBUTION OUTLETS**

### **(1) Independent Wholesalers**

An independent wholesaler performs some of the functions performed by the marketing division of an integrated oil company. Wholesaling of gasoline requires a relatively small investment and this attracts smaller companies and individuals who see an opportunity through specialization or by serving a particular segment of the market. They purchase their requirements of petroleum products from refineries belonging to "cartel" subsidiaries or other integrated companies, and they resell sometimes through their own private brand retail outlets or to small distributors, or to independent retailers or directly to consumers. U.F.A. Co-operative, Mohawk Oil Co. Ltd. and Supreme Oil & Gas Ltd. are examples of wholesalers who resell through their own private brand retail outlets.

Woodward's and Simpsons-Sears are examples of wholesalers who buy for resale through their various department store and shopping centre locations.

There are less than 100 small retailers or small distributors who buy at wholesale and they collectively market only a small proportion of the total volume.

### **(2) Bulk Agencies**

Bulk agents perform two functions:

- (a) the handling, storage and distribution function;
- (b) the sales and distribution function.

Each particular bulk agent may perform one or more of these functions. The bulk agency has large storage tanks. It receives bulk deliveries by tank car or tank truck, and keeps on hand various kinds and grades of petroleum products. It supplies retail dealers who take delivery in bulk such as service stations and farm dealers, and it supplies consumers who take delivery in bulk to their own storage such as industrial and commercial consumers and farm consumers.

The bulk agents who are located close to refineries, such as those in or near to Edmonton and Calgary, are primarily responsible for the smaller sales and deliveries to industrial and commercial consumers and to farm consumers, as the larger deliveries in such areas do not need to go through their hands because they go by large tank truck directly to the service stations and to the large industrial and commercial consumers.

In areas more remote from the refinery, supplies of product are maintained in the storage operated by a bulk agent and he is more likely to handle deliveries to service stations and to large industrial and commercial accounts as well as the smaller deliveries and sales. The bulk agent may have one or more trucks. His larger volume deliveries to retail dealers, farm dealers and large commercial consumers would be by larger tank truck and smaller deliveries to farm consumers and smaller industrial or commercial consumers would be in small tank trucks (1,000 to 1,600 gallons).

The bulk agency is normally owned by the oil company and operated by a commission agent who may be remunerated by three types of commissions:

- (a) a handling commission,
- (b) a sales commission,
- (c) a cartage commission, for deliveries involving unusually long hauls.

A bulk agent performing the handling and distribution functions would receive and store petroleum products, distribute them to service stations and to farm dealers and to commercial or industrial consumers on the instructions of the oil company, and would be remunerated by handling commissions and cartage commissions.

A bulk agent who sells in bulk to retailers, farm dealers, farmers and commercial and industrial accounts, is remunerated by sales commissions.

### **(3) Farm Dealers**

The Farm Dealer is a retailer to the Farm Market. He normally obtains products from a bulk agent. He sells to individual farm customers and has a small tank truck with which he makes deliveries to farm storage. He performs a selling and distribution function and is usually remunerated by a sales commission.

### **(4) Retail Outlets**

Retail outlets for automotive gasoline can be broadly classified into two categories:

- (a) service stations; and
- (b) other businesses with some gasoline sales.

The business which an ordinary person pictures when the word service station is mentioned is one in which more than 50% of total sales consist of gasoline and other petroleum products.

Other businesses which have some gasoline sales amounting to less than 50% of their total sales would include automobile dealerships, implement dealers, parking garages, rural general stores, etc.

The average motorist, and consequently the average citizen has sufficient impressions about service stations and other outlets retailing gasoline that no further generalized description is required here. Details of the service station business and the problems of its operators will be dealt with more fully in subsequent chapters.

## PART 3

### CLASSIFICATION OF RETAIL GASOLINE OUTLETS

	Page
Chapter 6. <b>Classification of Outlets</b> .....	93
(1) Classification by brand of gasoline .....	93
(2) Classification by type of ownership and operation .....	95
(3) Classification by nature of business opportunity .....	97
Chapter 7. <b>Numbers, Percentages and Gallonage of           Classified Outlets</b> .....	99





## PART 3

### CLASSIFICATION OF RETAIL GASOLINE OUTLETS

#### CHAPTER 6. CLASSIFICATION OF OUTLETS

Gasoline is retailed through many types of outlets. The Committee attempted to classify these outlets and has used three principal classifications as follows:

1. Classification by Brand of Gasoline;
2. Classification by Type of Ownership and Operation;
3. Classification by Nature of Business Opportunity.

Each of these three broad classifications can be further sub-divided as follows:

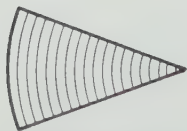
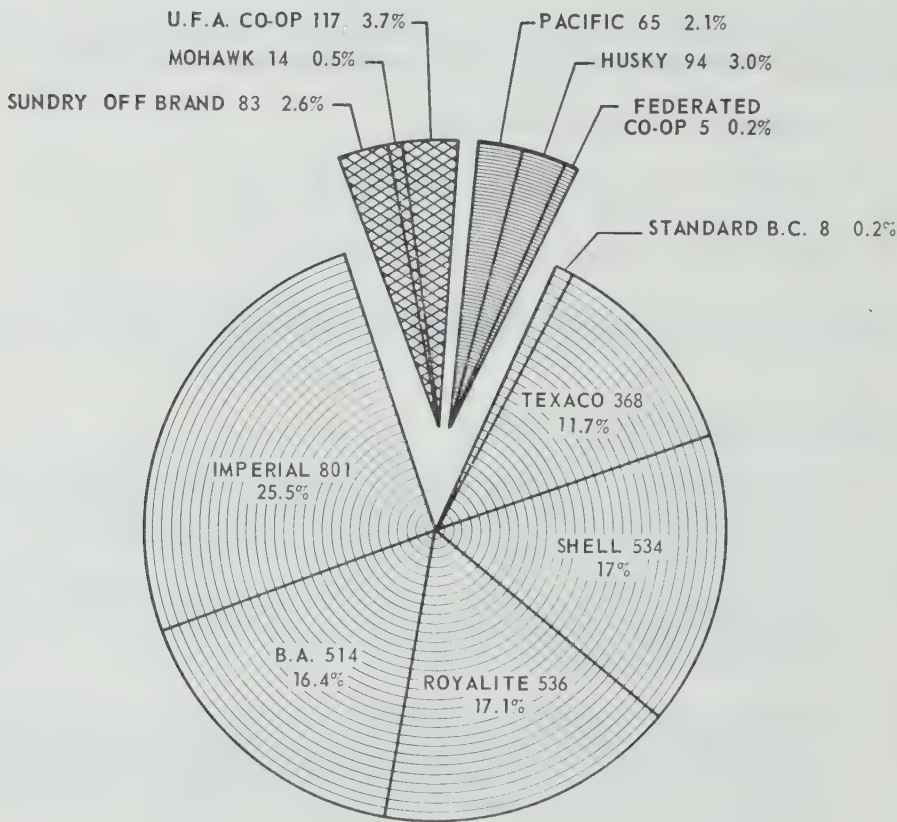
##### (1) Classification by Brand of Gasoline:

- (a) **"Cartel" brands**, being outlets for the subsidiaries of the gigantic international oil companies, referred to as the "Cartel" selling under the brand names: Esso, B.A., Royalite, Texaco, Shell and Chevron;
- (b) **Other brands**, being outlets for other fully integrated independent oil companies selling under brand names such as Husky, Pacific, and Federated Co-operatives;
- (c) **Off-brands**, being outlets for off-brand marketers, who are wholesalers and usually not refiners or fully integrated oil companies, selling under brand names such as Simpsons-Sears, Woodward's, U.F.A. Co-op., Mohawk, Supreme, and about 75 others having only one station or a few stations.

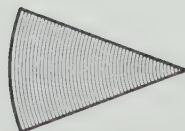
CHART 12

**NUMBER OF RETAIL OUTLETS BY BRAND**

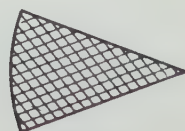
SHOWING PERCENTAGE OF OUTLETS BY COMPANY - ALBERTA 1965



CARTEL BRANDS



OTHER BRANDS



OFF BRANDS

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



## (2) Classification by Type of Ownership and Operation

- (a) **Lessees**, being service station operators who rent their business premises from oil companies which own them or hold a head lease; (includes operators who hold as lessees under cross leases)
- (b) **Owners Financed**, being the owners of their retail business premises who have borrowed from an oil company and granted security by way of mortgage on their business premises; (does not include owners who have become lessees under cross leases)
- (c) **Owners Not Financed**, being owners of their own retail business premises not mortgaged to an oil company;
- (d) **Commission Agents**, being service station operators who occupy premises belonging to an oil company who are remunerated by commissions based on their volume of sales;
- (e) **Employees**, being service station operators occupying a service station belonging to an oil company, who are employees of the oil company and remunerated by salary.

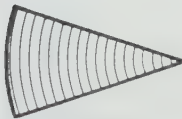
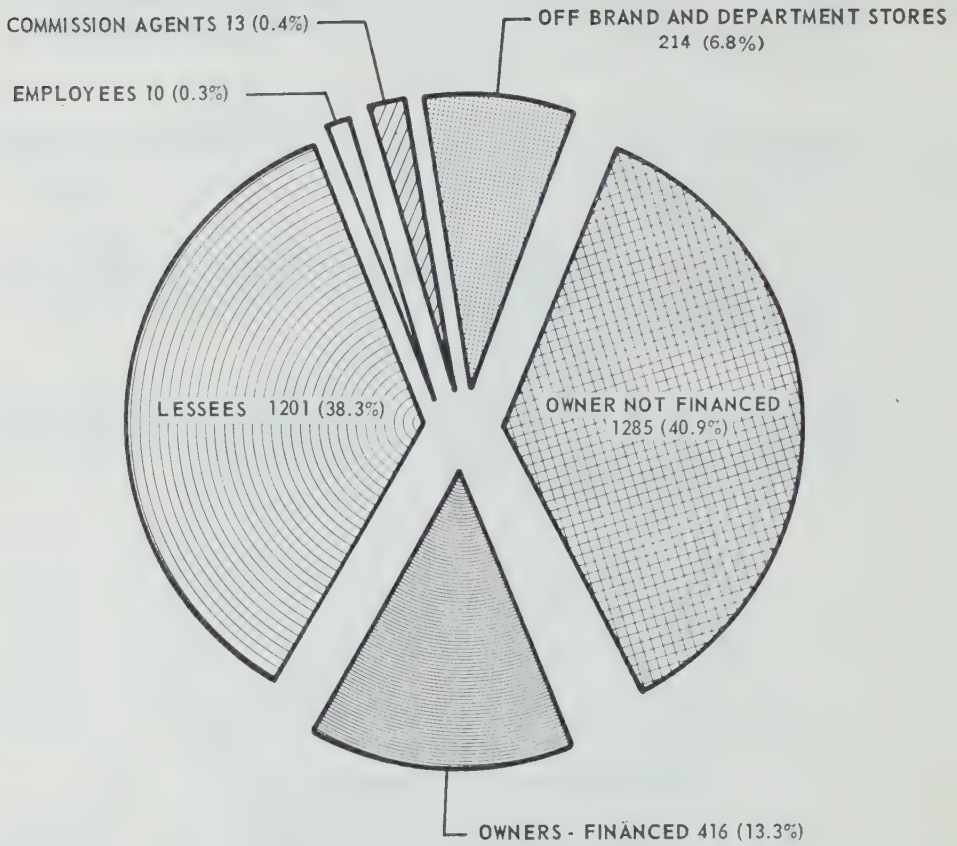
Table 2.  
Retail Outlets by Type of Operation

	Number	Percent
Lessees .....	1,201	38.3%
Owners — Financed .....	416	13.3%
Owners — Not Financed .....	1,285	40.9%
Commission Agents .....	13	0.4%
Employees .....	10	0.3%
Sub Total .....	2,925	93.2%
Off Brand Not Classified by Type of Operation .....	214	6.8%
Total .....	3,139	100.0%

Source: Gasoline Marketing Enquiry Records.

CHART 13

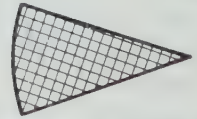
# RETAIL OUTLETS BY TYPE OF OPERATION ALBERTA 1965



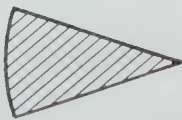
LESSEES



OWNERS - FINANCED



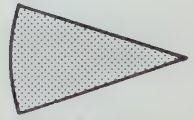
OWNERS - NOT FINANCED



COMMISSION AGENTS



EMPLOYEES



OFF BRAND AND  
DEPARTMENT STORES

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

(3) **Classification by Nature of Business Opportunity:**

(a) **Service Stations**, being retail outlets where more than 50% of gross sales are sales of gasoline. The service station classification can be further sub-divided by location and by sales ratios of gasoline sales to other sales as follows:

	Gasoline Sales	Other Sales
(1) <b>Highway service stations</b> , located on main highways where the majority of customers require gasoline, and there is relatively little demand for other merchandise or for repairs, resulting in a sales ratio of approximately -----	90%	10%
(2) <b>Urban highway stations</b> , having mixed highway and urban traffic, or open 24 hours have more opportunity to sell merchandise and repair services so they would commonly experience a sales ratio of approximately -----	75%	25%
(3) <b>Urban arterial stations</b> , located on a major traffic artery in an urban area normally have a sales ratio of approximately -----	70%	30%
(4) <b>Urban neighborhood stations</b> , have the greatest opportunity to sell merchandise and repair services where the normal sales ratio is approximately -----	65%	35%
(5) <b>Rural service stations</b> , located in rural areas to serve local residents, with wide variations between areas, but usually low gross sales, of which a larger percentage is other merchandise and repairs		

(b) **Other business with some gasoline sales**, being retail businesses where less than 50% of total sales are gasoline sales, including such businesses as:

- (1) Automobile dealer with gasoline sales;
- (2) Implement dealer with gasoline sales;
- (3) Parking structure with gasoline sales;
- (4) Service garage with gasoline sales;
- (5) Car wash with gasoline sales;
- (6) General store, coffee shop, motel or other business with gasoline sales;
- (7) Bulk agent with some retail gasoline sales.

**Table 3.**  
**Classification of Retail Gasoline Outlets**

<b>By Brand</b>	<b>By Type of Ownership and Operation</b>	<b>By Business Opportunity</b>
<b>"Cartel" Brands</b>		<b>Service Stations</b>
Esso	Lessee	Highway Service
B.A.	Owner, financed	Urban Highway or 24 hour
Royalite	Owner, not financed	Urban Arterial
Texaco	Commission Agent	Urban Neighborhood
Shell	Employee	Rural Service
Chevron		
<b>Other Brands</b>		<b>Other Businesses With Some Gas Sales</b>
Husky		Auto Dealer
Pacific		Implement Dealer
Federated Co-Op		Parking Structure
<b>Off Brands</b>		Service Garage
Simpsons-Sears		Car Wash
Woodward's		General Store, etc.
U.F.A. Co-Op		
Mohawk		
Supreme		
75 others		

Each retail gasoline outlet  
should be classified somewhere  
in all three classifications

e.g. a station may be classified as:

- (a) Esso brand,
- (b) Lessee operated, and
- (c) Highway Service Station

another station may be classified as:

- (a) Chevron brand,
- (b) Employee operated, and
- (c) Urban neighborhood.

Source: Gasoline Marketing Enquiry Records.



## CHAPTER 7. NUMBERS, PERCENTAGES, AND GALLONAGE OF CLASSIFIED OUTLETS

The retailing of gasoline is dominated by outlets of the "cartel" subsidiaries.

Classifying Alberta's 3,139 retail outlets by brand,

- (a) 2,761 are "cartel" brand;
- (b) 164 are "other brands";
- (c) 206 are "off brands";
- (d) 8 are department stores.

The percentage of the volume sold by retail outlets classified by brands is,

- (a) 86.5% by "cartel" brands;
- (b) 4.8% by "other brands";
- (c) 6.8% by "off brands";
- (d) 1.9% by department stores.

Over 3,000 of the retail outlets are "tied" to marketing a particular brand of gasoline and are restricted from purchasing from any other marketer.

Less than 100 outlets, most of which have relatively small volume and do not sell under a familiar trade name, are owned by completely independent persons or companies free to buy where they choose.

Retailing of gasoline has attracted independent owners because of the smaller investment required. However, most of such owners have failed to preserve their complete independence for very long.

When classifying outlets by type of ownership and operation, as a broad general rule,

- (a) the high volume outlets are owned by oil companies and operated by lessees;
- (b) owners operate the outlets with the lowest volumes.

The tables and charts on the following pages illustrate the findings of the Committee as to numbers of retail outlets and volumes classified in various ways.

In the following tables and charts "Cartel" Brand, Other Brands and Off Brands include these companies:

**"Cartel" Brand**  
Imperial  
B.A.  
Royallite  
Shell  
Texaco  
Standard (B.C.)

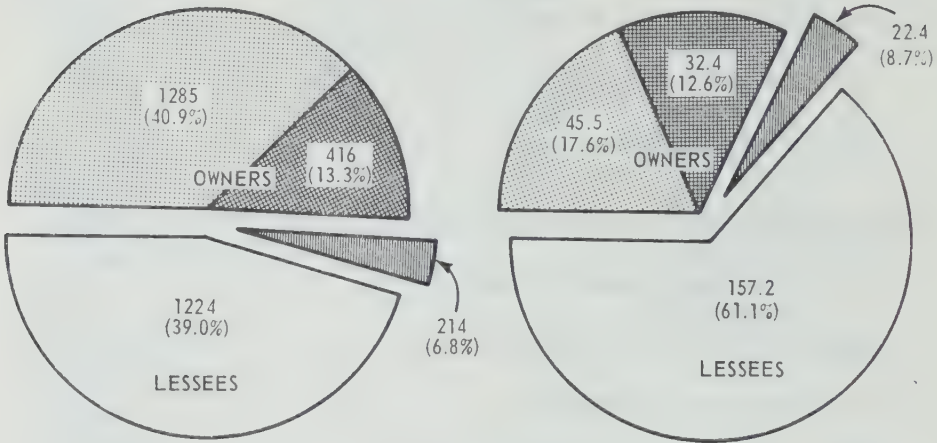
**Other Brands**  
Federated Co-op  
Husky  
Pacific

**Off Brands**  
Mohawk  
U.F.A. Co-op  
Woodward's  
Simpsons-Sears  
75 Sundry Outlets





CHART 14

**ALL RETAIL OUTLETS**  
 NUMBER OF OUTLETS COMPARED WITH GALLONAGE SOLD  
 CLASSIFIED BY TYPE OF OPERATION ALBERTA 1965

NUMBER OF OUTLETS

GALLONAGE SOLD  
(In Millions of Gallons)

54.2% OF THE OUTLETS ARE OWNER OPERATED,<sup>(a)</sup> BUT ONLY SELL 30.2% OF THE GASOLINE.  
 39.0% OF THE OUTLETS ARE LESSEE OPERATED, BUT THEY SELL 61.1% OF THE GASOLINE.

-  OUTLETS OPERATED BY LESSEES. (PERCENTAGE OF OUTLETS OPERATED BY OIL COMPANY EMPLOYEES AND COMMISSION AGENTS TOO SMALL TO BE SHOWN ON GRAPH)
-  OUTLETS OPERATED BY OWNER - FINANCED BY OIL COMPANIES
-  OUTLETS OPERATED BY OWNER - NOT FINANCED BY OIL COMPANY
-  OFF BRAND AND DEPARTMENT STORE OUTLETS

<sup>(a)</sup> OWNER OPERATED - THOSE FINANCED BY OIL COMPANIES PLUS THOSE NOT FINANCED BY OIL COMPANIES.

**Table 4.**  
**All Retail Outlets**

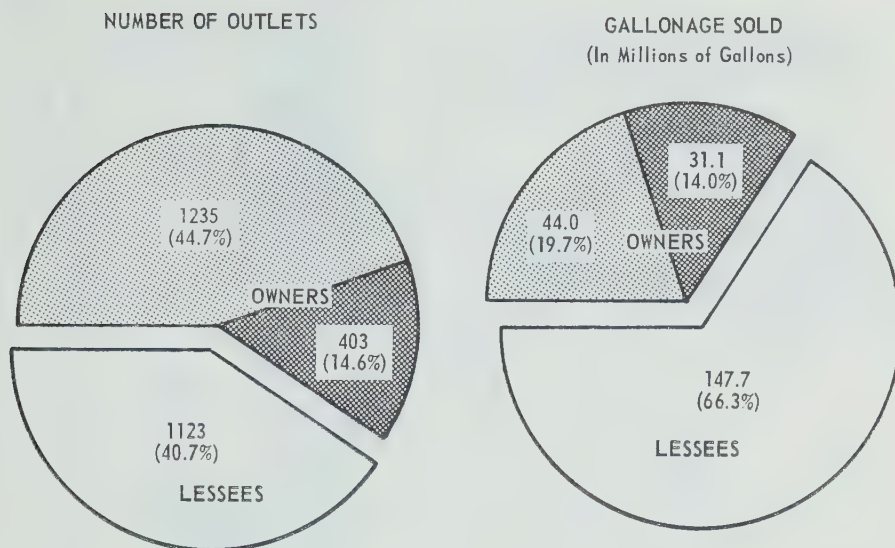
**Number of Outlets compared with Gallonage Sold, classified by Type of Operation, Alberta, 1965**

	Number of Outlets	Percent of Total	Gallonage Sold	Percent of Total
Outlets Operated by Lessees*	1,224	39.0%	157,251,000	61.1%
Outlets Operated by Owner — Financed by Oil Company	416	13.3%	32,358,000	12.6%
Outlets Operated by Owner — Not Financed by Oil Company	1,285	40.9%	45,455,000	17.6%
Off Brand and Department Stores	214	6.8%	22,372,000	8.7%
<b>Total</b>	<b>3,139</b>	<b>100.0%</b>	<b>257,436,000</b>	<b>100.0%</b>

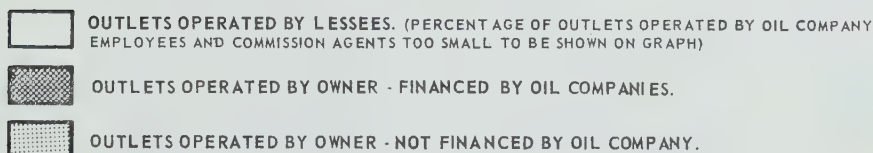
\* Includes 13 Commission Agents and 10 Oil Company employees.

Source: Gasoline Marketing Enquiry Records.

CHART 15  
**RETAIL OUTLETS OF 'CARTEL' SUBSIDIARIES**  
 NUMBER OF OUTLETS COMPARED WITH GALLONAGE SOLD  
 CLASSIFIED BY TYPE OF OPERATION ALBERTA 1965



59.3% OF THE OUTLETS ARE OWNER OPERATED, <sup>(a)</sup> BUT ONLY SELL 33.7% OF THE GASOLINE.  
 40.7% OF THE OUTLETS ARE LESSEE OPERATED, BUT THEY SELL 66.3% OF THE GASOLINE.



<sup>(a)</sup> OWNER OPERATED - THOSE FINANCED BY OIL COMPANIES PLUS THOSE NOT FINANCED BY OIL COMPANIES.

Table 5.  
 Retail Outlets of "Cartel" Subsidiaries  
 Number of Outlets compared with Gallonage Sold, classified by Type of Operation,  
 Alberta, 1965

	Number of Outlets	Percent of Total	Gallonage Sold	Percent of Total
Outlets Operated by Lessees*	1,123	40.7%	147,696,000	66.3%
Outlets Operated by Owner — Financed by Oil Company	403	14.6%	31,092,000	14.0%
Outlets Operated by Owner—Not Financed by Oil Company	1,235	44.7%	43,968,000	19.7%
<b>Total</b>	<b>2,761</b>	<b>100.0%</b>	<b>222,756,000</b>	<b>100%</b>

\* Includes 13 Commission Agents and 8 Oil Company Employees.

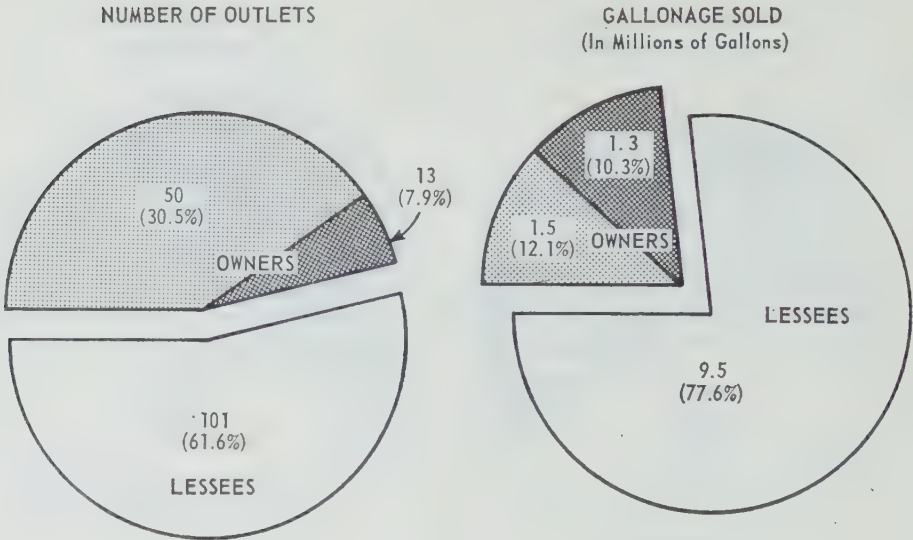
Source: Gasoline Marketing Enquiry Records.

CHART 16




# RETAIL OUTLETS OF 'OTHER' BRANDS

(INDEPENDENT INTEGRATED COMPANIES)

NUMBER OF OUTLETS COMPARED WITH GALLONAGE SOLD  
CLASSIFIED BY TYPE OF OPERATION ALBERTA 1965



38.4% OF THE OUTLETS ARE OWNER OPERATED,<sup>(a)</sup> BUT ONLY SELL 22.4% OF THE GASOLINE.  
61.6% OF THE OUTLETS ARE LESSEE OPERATED, BUT THEY SELL 77.6% OF THE GASOLINE.

-  OUTLETS OPERATED BY LESSEES. (PERCENTAGE OF OUTLETS OPERATED BY OIL COMPANY EMPLOYEES AND COMMISSION AGENTS TOO SMALL TO BE SHOWN ON GRAPH.)
-  OUTLETS OPERATED BY OWNER - FINANCED BY OIL COMPANIES
-  OUTLETS OPERATED BY OWNER - NOT FINANCED BY OIL COMPANY.

<sup>(a)</sup> OWNER OPERATED - THOSE FINANCED BY OIL COMPANIES PLUS THOSE NOT FINANCED BY OIL COMPANIES.

Table 6.

Retail Outlets of "Other" Brands (Independent Integrated Companies)  
Number of Outlets compared with Gallonage Sold, classified by Type of Operation,  
Alberta, 1965

	Number of Outlets	Percent of Total	Gallonage Sold	Percent of Total
Outlets Operated by Lessees*	101	61.6%	9,555,000	77.6%
Outlets Operated by Owner — Financed by Oil Company	13	7.9%	1,266,000	10.3%
Outlets Operated by Owner—Not Financed by Oil Company	50	30.5%	1,487,000	12.1%
Total	164	100.0%	12,308,000	100.0%

\* Includes two Oil Company Employees.

Source: Gasoline Marketing Enquiry Records.



CHART 17

# NUMBER OF RETAIL OUTLETS

CLASSIFIED BY TYPE OF OPERATION AND BRAND - ALBERTA, 1965.

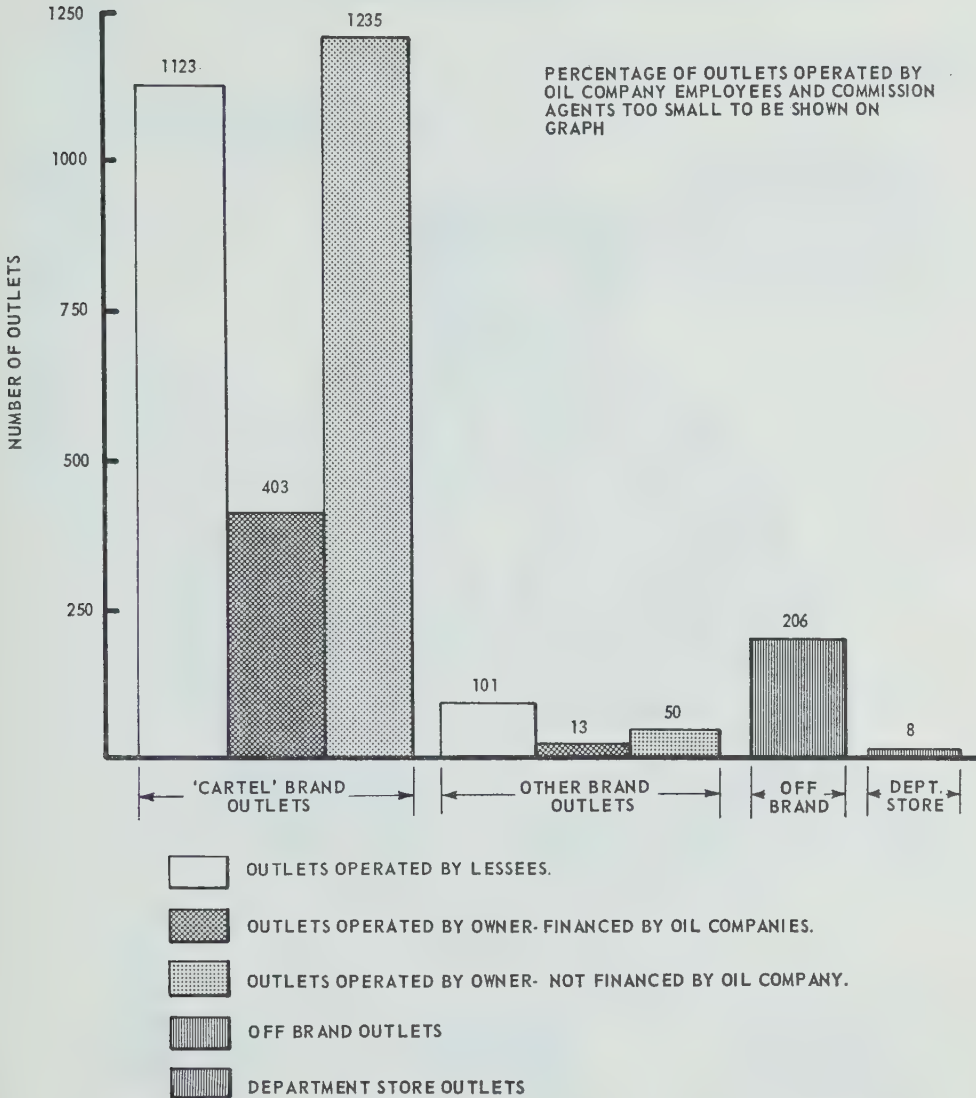


Table 7.

## Number of Retail Outlets classified by Type of Operation and Brand, Alberta, 1965

	"Cartel" Brand Outlets	Other Brand Outlets	Off Brand Outlets	Department Store Outlets	Grand Total
Outlets Operated by Lessees .....	1,102	99			1,224*
Outlets Operated by Owner — Financed by Oil Company .....	403	13			416
Outlets Operated by Owner — Not Financed by Oil Company .....	1,235	50			1,285
Outlets Operated by Commission Agent .....	13*				
Outlets Operated by Oil Company Employee .....	8*	2*			
Outlets Not Classified by Type of Operation .....			206	8	214
Total Outlets .....	2,761	164	206	8	3,139

\* Commission Agents and Employees Grouped in with Lessees in the Grand Total.

Source: Gasoline Marketing Enquiry Records.

CHART 18

# VOLUME OF RETAIL GASOLINE SOLD BY BRAND

## ALBERTA 1965

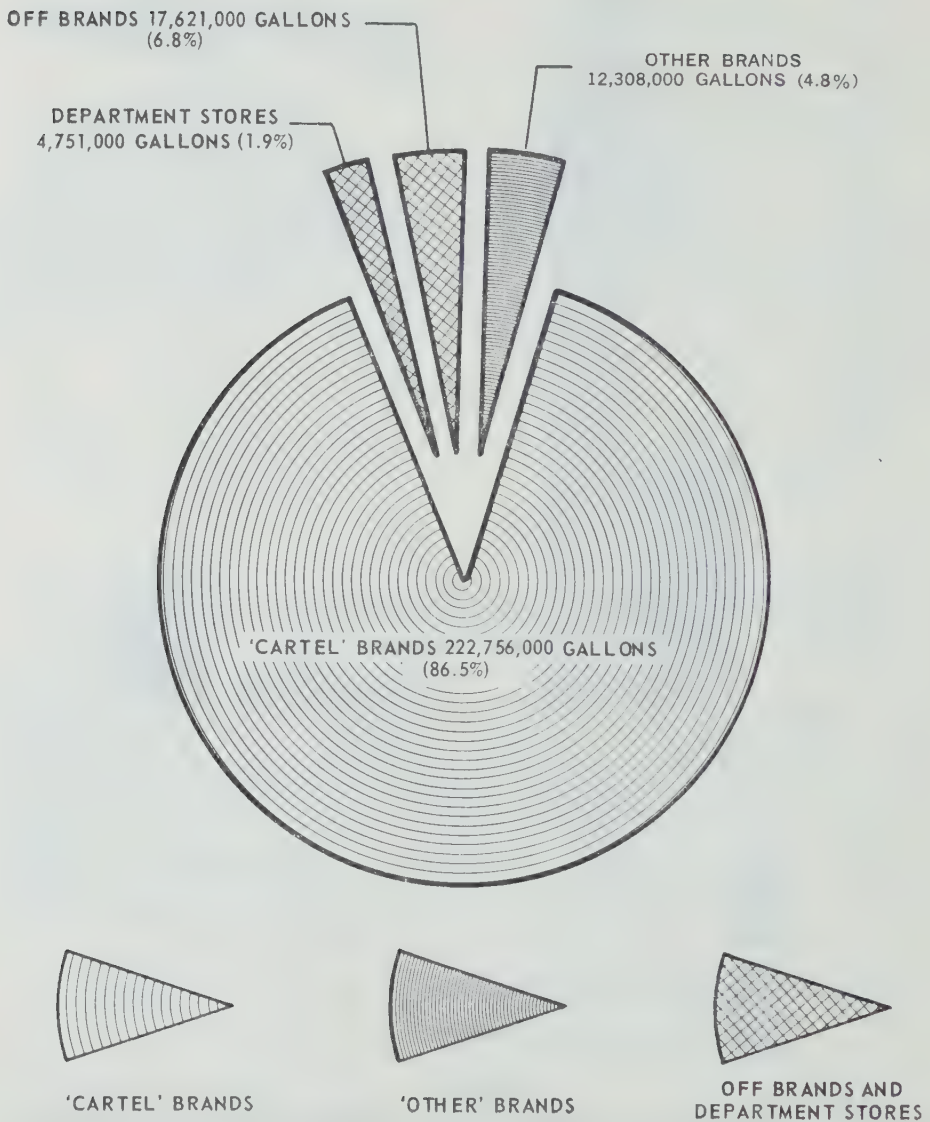


Table 8.  
Volume of Retail Gasoline Sold by Brand, Alberta, 1965

	Gallonage	Percent
"Cartel" Brands .....	222,756,000	86.5%
Other Brands .....	12,308,000	4.8%
Off Brands .....	17,621,000	6.8%
Department Stores .....	4,751,000	1.9%
Total .....	257,436,000	100.0%

Source: Gasoline Marketing Enquiry Records.

CHART 19

# **VOLUME OF RETAIL GALLONAGE SOLD** **OUTLETS CLASSIFIED BY TYPE OF OPERATION - ALBERTA 1965**

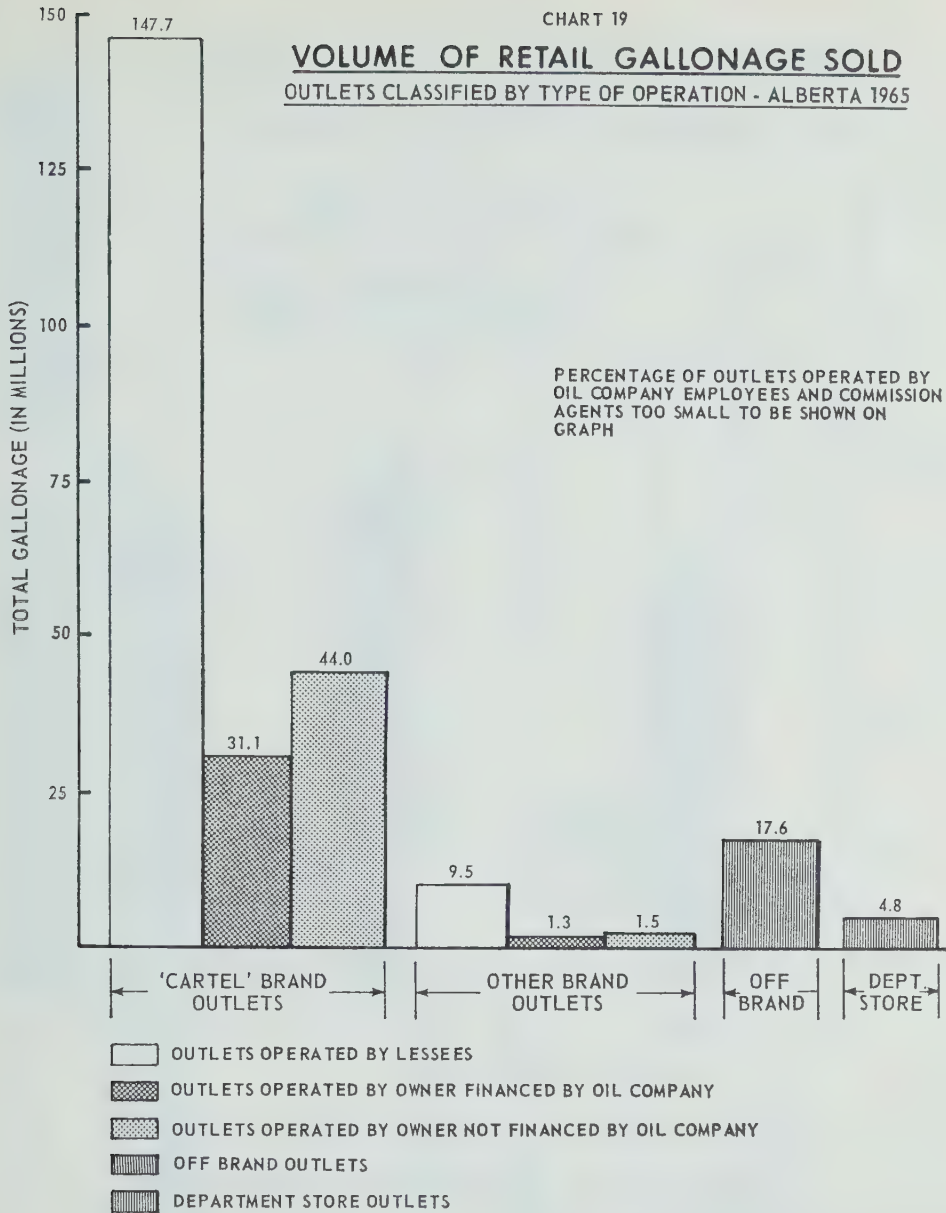


Table 9.

## **Volume of Retail Gallonage Sold. Outlets classified by Type of Operation, Alberta, 1965**

	"Cartel" Brand Gallonage	Other Brand Gallonage	Off Brand Gallonage	Department Store Gallonage
Outlets Operated by Lessees* .....	147,696,000	9,555,000		
Outlets Operated by Owner — Financed by Oil Company .....	31,092,000	1,266,000		
Outlets Operated by Owner — Not Financed by Oil Company .....	43,968,000	1,487,000		
Outlets not Classified by Type of Operation .....			17,621,000	4,751,000
Total Gallonage .....	222,756,000	12,308,000	17,621,000	4,751,000
Total Outlet Gallonage: 257,436,000				

\* Includes 13 Commission Agents and 10 Oil Company Employees.

Source: Gasoline Marketing Enquiry Records.

CHART 20

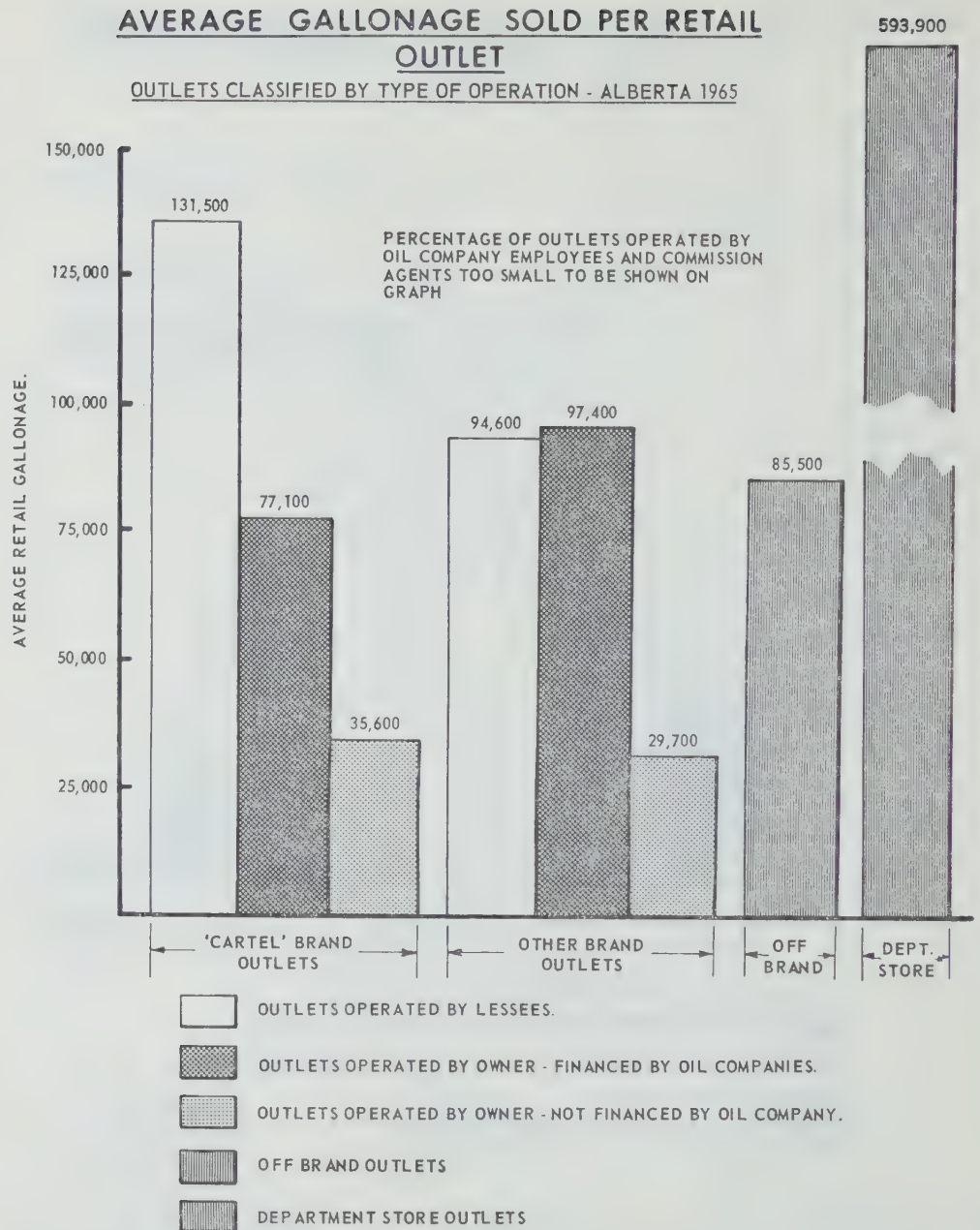


Table 10.  
Average Gallonage Sold Per Retail Outlet. Outlets classified by Type of Operation, Alberta, 1965

	"Cartel" Brand Average Gallonage	Other Brand Average Gallonage	Off Brand Average Gallonage	Department Store Average Gallonage
Outlets Operated by Lessees* .....	131,500	94,600		
Outlets Operated by Owner — Financed by Oil Company .....	77,200	97,400		
Outlets Operated by Owner — Not Financed by Oil Company .....	35,600	29,700		
Outlets Not Classified by Type of Operation .....			85,500	593,900
Average Gallonage .....	80,700	75,000	85,500	593,900

\* Includes 13 Commission Agents and 10 Oil Company Employees.  
Source: Gasoline Marketing Enquiry Records.



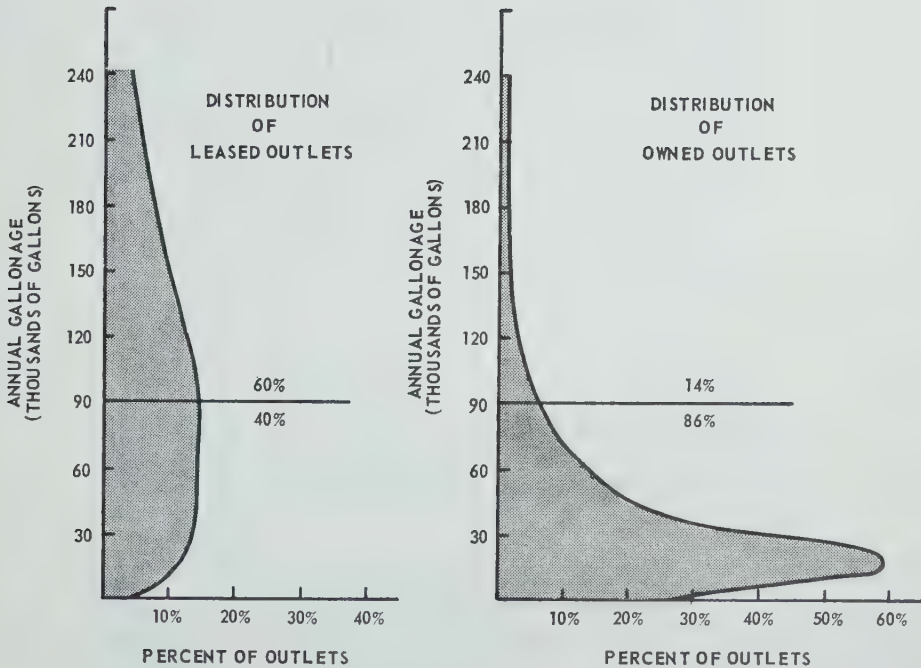
CHART 21

# RETAIL OUTLETS

CATEGORIZED BY ANNUAL GALLONAGE SOLD

ALBERTA 1965

GALLONAGE RANGE	LEASED OUTLETS		OWNED OUTLETS	
	NUMBER	%	NUMBER	%
0 - 30,000	131	12%	1079	58%
30,000 - 60,000	155	14%	379	20%
60,000 - 90,000	155	14%	152	8%
90,000 - 120,000	162	14%	88	5%
120,000 - 150,000	122	11%	45	2%
150,000 - 180,000	108	9%	33	2%
180,000 - 210,000	76	7%	26	1%
210,000 - 240,000	58	5%	17	1%
240,000 - 300,000	64	6%	13	1%
OVER 300,000	91	8%	31	2%
	1122	100%	1863	100%



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



## PART 4

### OPERATION OF RETAIL OUTLETS

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## PART 4

### OPERATION OF RETAIL OUTLETS

#### CHAPTER 8. THE OPERATOR'S BACKGROUND, RECRUITING AND TRAINING

##### (1) Background Experience of Operator

The Committee in its service station questionnaire inquired as to the education and training of the operators it interviewed.

The answers indicate that it is almost easier to describe operators, not by describing the qualifications they have, but rather by listing qualifications they do not have.

The service station operator's most important role is managing a business in which there is a substantial capital investment and a substantial dollar volume of sales. Some management training or some business management experience would seem to be a most important qualification for an operator. 97.4% of all outlets, including 96.8% of lessee operators had no previous management training.

The service station business is concerned with the servicing, maintenance, and repair of vehicles. 66.1% of all service station operators including 64.4% of lessee operators have not had mechanical training.

77% of operators had not completed high school. 9.9% of operators had no formal education beyond grade 8.

If you were employing a man to manage a business in which a capital investment of \$75,000.00 was used, having an expected annual dollar volume of sales in excess of \$100,000.00, how would you regard the qualifications set out above?

One of the major oil companies in a publication distributed to its dealers expressed the idea in this way:

"A service station handles a lot of money — much more than most people realize. For example, a station selling 20,000 gallons a month will handle about \$10,000 monthly — on the average. That's \$120,000 a year, \$600,000 in five years, \$1,200,000 in 10 years and \$2,400,000 in 20 years. A lot of money!

Taking care of all that money, using it wisely to operate your business, and having enough left as a profit for yourself — that's what Money Management is all about."

In most cases the service station operator is not an oil company employee, but is classified by the oil company as "an independent business man."

It does not appear that oil companies in selecting lessees to operate service stations apply the same standards that they would use if hiring an employee to operate the same station.

It is likely that if the operator were an employee, and oil company money was being risked rather than the operator's, the oil company would never put a man with such apparently inadequate training resources in charge of a service station business of that magnitude.

##### (2) Recruiting Service Station Operators

In oil company questionnaire No. 5 question 18 requested oil companies to outline the procedure they use in recruiting and selecting lessees for service stations. The methods used by all oil companies are similar although one oil company may place a little more emphasis on one method than another does.

The recruiting and selection of service station operators is an important function of the oil company sales representative. He keeps track of the operators in his territory who are experiencing difficulties, he is aware of vacant stations and probable vacancies and it is part of his duty to find applicants to fill these vacancies as they arise.

In general, the oil companies state that names of prospects are obtained in one of the following four ways:—

- (a) persons who think they would like to operate a service station may get in touch with the oil company to inquire or make application, and their names are referred to the sales representative in whose territories vacancies exist;
- (b) signs are posted on a service station indicating an operator is wanted and applications are received in response to the notice;
- (c) advertisements are published in newspapers and applications are received in response to such advertisements;
- (d) oil company sales representatives are constantly meeting employees in service stations who may ultimately wish to operate their own stations, they obtain leads from existing operators concerning employees who wish to operate their own stations, and they obtain leads from associated industries such as tire companies, automotive equipment companies, etc. where there are employees who think they would like to operate a business of their own.

Upon receipt of an application or an expression of interest the oil company sales representative arranges a personal interview and if he thinks the prospect is satisfactory he attempts to sell him on the idea of operating a service station.

The interview with the sales representative may be followed by a further interview with a sales supervisor or the area sales manager, and the company does credit and character checks to determine whether the applicant is bondable which is usually a requirement. The sales representative has to keep recruiting new operators as existing ones terminate so that the outlets in his sales territory can be kept open to sell the brand name products of his company to the public. His available prospects may not have all of the qualities which would contribute toward their success as service station lessees, but there are strong economic pressures not to allow a substantial capital investment to lie idle and to keep an outlet open for the sale of products if a willing prospect is available even though he doesn't have all of the most desirable qualifications.

The advertisements published by oil companies to attract prospective lessees appear to concentrate on leaving one or more of three principal impressions, namely:

- (a) profits,
- (b) independence,
- (c) ease of entry.

Express promises are not made, but the implications leave a clear impression.

We have clipped over thirty advertisements for lessees which were published in Edmonton or Calgary newspapers by six different oil companies, and in a few cases a box number was used.

The vision of profits is stirred by words such as the following extracted from various advertisements:

- " . . . high income potential . . . "
- " . . . proven volume on high traffic artery . . . "
- " . . . sales in excess of \$250,000.00 . . . "
- " . . . on major arterial route, possibility of excellent volumes . . . "
- " . . . profit opportunity . . . "
- " . . . you enjoy . . . the profits from your own efforts and decisions."
- " . . . a successful (service station) is now available for the man looking for a career opportunity."
- " . . . \$15,000.00 reward . . . with a minimum \$4,000.00 investment, a \$15,000.00 annual return can be realized."
- " . . . outstanding investment opportunity."

“... you can make \$10,000 or more a year in your own business.”

“... income opportunity you've been looking for!”

“... this new ... station offers an excellent opportunity for the man who wants to ... make a good income. Our research indicates strong profit potential.”

“... a wonderful opportunity awaits you ... earning potential \$10,000 to \$15,000 per year.”

“... business opportunity ... thriving profitable distributorship ... large proven volumes and ... excellent net returns.”

“... business opportunity ... good earning potential.”

“... high volume location available with progressive company.”

“... increase your profits.”

The advertisements are equally glowing about the opportunities for independence and freedom as illustrated by the following quotations:

“Wanted: ambitious man to run own business ... if you are ambitious, would like to own your own business, run your own show ... But you are your own boss. You run your own business ... you must be ambitious, eager to run your own show, hire and control your own staff, get ahead.”

“Operate your own business ... be your own boss.”

“Business opportunity ... to operate your own service station.”

“... you're the proprietor of your own business. You enjoy independence ... from your own efforts and decisions.”

“If you are interested in running your own business and investing in a solid future ...”

“... excellent opening for an independent business man.”

“... excellent opportunity for the man who wants to be in business for himself.”

“... this excellent service station investment is available now to the ambitious independent business man.”

The third theme which keeps recurring in many advertisements is the ease of getting into the business. The following quotations from advertisements illustrate this:

“(name of oil company) will help you with: financial assistance. Complete training. Advertising and promotional support.”

“Further financing is available if required.”

“Complete training, with pay while you learn. On-the-job guidance to profitable management”

“We offer ... company sponsored management programs.”

“Financial assistance can be made available to the right man.”

“Some capital required.”

“Minimum capital required. Complete assistance available. Complete training program.”

“Limited capital required.”

“(Name of oil company) will provide complete training and financial assistance.”

“... financial assistance available to the right person. Full company training provided.”

“Financial and administrative assistance available.”

“(Name of oil company) could possibly help out in some way. Certainly, we would like to. Any way, don't let lack of capital stop you from phoning us.”

“No experience necessary. Apply now.”



The impressions created in the minds of the Committee from reading these adds of profits, independence, and ample training and assistance do not correspond with the Committee's impressions from its examination of some hundreds of service stations in Alberta.

The average earnings in all service stations examined by the Committee were \$6,500.00 per year which is something less than the visions of "high income potential", "large proven volumes" etc., and less than half the figure mentioned in some advertisements.

More than 500 operators were interviewed by the Committee and they were practically unanimous that lack of independence and freedom to run their own businesses was one of the most important problems they faced. The web of oil company contract ties deprived them of the advertised freedom and they are prevented from exercising almost every business decision they expected to have the opportunity to make.

A majority of the operators interviewed advised the Committee they had received very little if any training or assistance and they felt that much greater opportunities for training were needed.

The advertised attractions are not realized by a majority of operators.

### **(3) Lack of Training**

In the opinion of the Committee, lack of training is a factor which contributes heavily to the business failure of many service station operators.

In interviews with over 500 operators 89.2% of all outlets, including 78.9% of lessees stated they had received no formal training from the oil company.

They pointed out that many problems exist for service station operators, due directly to their lack of training.

Many operators do not have sufficient knowledge of bookkeeping or common business practices to understand or analyze the financial statements of their own businesses. Many operators have expensive cash registers but lack the knowledge to take full advantage of these machines to departmentalize and analyze their businesses.

Many operators who lack prior business experience have no knowledge of the principles and problems involved in extending credit to customers. They advance credit where there is no need to do so, tie up their capital in accounts receivable and needlessly use money that would otherwise be available to improve their inventories and eliminate their interest charges.

Many operators are unaware of the problems of stock control and find they have too much dead stock, not enough saleable merchandise, and not enough safeguards against theft or loss.

Many operators have no prior business experience and are faced on commencement with a bewildering array of documents such as the lease, the franchise agreement, consignment agreements, equipment loan agreements, etc. In unfamiliar contractual relationships, the new operator does not know what is normal and what can be bargained for, he may understand the words but not the significance of some contract clauses and he winds up by signing everything without any real understanding of the extent of his commitments. As his experience in the business grows he learns the significance of the various ties and has to conform to the restrictions or abandon the business.

92.3% of all service station operators, including 93.8% of lessee service station operators considered a formal training program would be advantageous to operators. Of these, 72.6% of all service station operators including 75% of lessees stated they would still take such a program if it were available.

Among the subjects the operators placed highest on the list of items in which training was desired 66.4% of all service station operators, including 64.8% of lessees mentioned business administration, 51.3% of all service station operators including 54.3% of lessees mentioned bookkeeping and accounting, and 35.9% of all service station operators, including 35.1% of lessees mentioned mechanical training.



10.8% of all outlets, including 21.1% of the lessees, had received some oil company training, usually in courses of two or three days duration. The operators who had taken these courses considered they were helpful. Their criticism was that the courses emphasized product knowledge, public relations and housekeeping, rather than business management which was of most importance to the operator.

By comparison with the highly desired subjects for training such as business administration mentioned by 66.4% of all service station operators and book-keeping and accounting mentioned by 51.3% product knowledge was low on the list, being mentioned by only 8.7% of operators. These operators considered that the oil company training emphasis was on "product knowledge" which they regarded as a matter of sales promotion as much as a matter of training.

There are two types of training that an oil company could provide to its operators:—

- (a) advance training for the new operator to teach him the essentials of the business and to help him to avoid problems which most frequently arise;
- (b) continuing training for the existing operator to improve his deficiencies and to assist him in developing his business.

Most oil companies provide very little of the first type of training to their lessees and the emphasis of their programs is on the second type.

Most oil companies have a syllabus of training outlining subjects which it is desirable for an operator to take, and the program looks impressive on paper. However, the actual training conducted by most oil companies appears insignificant by comparison with the need.

The oil companies gave us particulars of their training programs in reply to questionnaire 5, questions 22 to 25 inclusive.

The types of training offered by each of the larger oil companies are quite similar. An operator may receive some training by one or more of the following three methods:—

- (a) by periodic short courses, training clinics, or seminars where formal instruction is given to a class;
- (b) by working for a few days in a company owned employee operated service station to observe the procedures and perform various jobs under supervision; and
- (c) by on-the-job training in his own service station where the company sales representative calls on him at intervals to sell products, and also gives some advice or assistance on problems encountered by the operator.

One major oil company reported that its new lessees are not required to attend a specific course of instruction. After the new lessee moves into his station he is called on by the sales representative who sells products to him and gives him some on-the-job instruction. He is then encouraged to attend the training courses which are held at intervals.

Another major oil company reported that the formal training it offers is not given all at one time. A two or three day training session may be offered dealing with two or three subjects. Such a session is usually attended by about ten lessees. Later another clinic may be held on other subjects. Due to timing or location of seminars sometimes lessees who want the training can't attend. Many lessees find it difficult to be absent from their stations due to lack of a suitable replacement. Accordingly the lessees who attend one such clinic may or may not enroll for the next one. The same seminar or clinic may be attended both by new lessees and by old lessees.

The list of short courses or clinics conducted by one company during 1965 was as follows:

1. Financial management seminar .....	3 days
2. Sales objective setting course .....	2 days
3. Arterial highway clinics — Service to tourists .....	1 day
4. Trans-Canada Highway clinics — Service to tourists .....	4 hours
5. Incentive system .....	4 hours
6. Recruiting and hiring clinic .....	3 hours
7. Manpower management clinic .....	3 hours
8. Tire clinics — product information and selling .....	3 hours
9. Shock Absorber clinics — product information and selling .....	3 hours

A lessee who attended the complete program of another company would obtain the following class instruction:—

1. Business management .....	16 hours
2. Advertising, display and handling of products for sale .....	4 hours
3. Product knowledge .....	8 hours
4. Personnel .....	4 hours
5. Selling .....	8 hours
Total .....	40 hours

An appreciable amount of the time spent is on product information and selling and public relations. The sales promotion of particular products is important but other problems loom larger to the inexperienced operator attempting to manage his first business.

A lessee who took all the class training available from a third company could obtain a maximum of ten days instruction, and a fourth company's program included a maximum of two weeks of classroom instruction.

Four companies reported the average size of their classes as follows:

Company	No. in Class
A	10 persons
B	6 to 12 persons
C	3 persons
D	10 to 14 persons

The oil companies in answer to question 24 provided particulars relating to their training personnel and the number of days spent by each instructing in formal training programs. The limited amount of training actually given is indicated by the fact that each company has relatively few persons engaged in instruction, and each spent only a portion of his time giving class instruction.

Company "A" reported it had two instructors, one of whom did not participate in any formal training classes, and the other spent only 20 days in 1965 giving such classes.

Company "B" reported it had four instructors who collectively spent only 110 days in classes or clinics which averages about one month per instructor.

Company "C" reported only one instructor who spent 8 weeks lecturing in four training programs of two weeks each.

Company "D" reported two instructors who together totalled 161 days of short courses and clinics. On the average each would appear to be spending about a third of his time giving classes.

In answer to questions 22 and 23 the oil companies gave us particulars of the number of new lessees and the number of existing lessees who during 1965 received any formal instruction in a training program, seminar, short-course, or training clinic. In the case of four of the larger marketers the number of lessees reported to have received some instruction during 1965 was as follows:

Company	New Lessees	Old Lessees
A		105 (new and old)
B	6	34
C	17	6
D	16	87

There are over 3,000 retail gasoline outlets in the province of which over 1,200 are operated by lessees. The rate of lessee turnover is approximately 20% per year. It is obvious that very large numbers of service station operators received no formal class training at all.

The training program is to help qualify people to manage businesses which have a capital investment of \$40,000 or \$50,000 and up, and which should have annual sales in excess of \$100,000. With this in mind the training seminars and clinics to which relatively few operators are occasionally exposed appear rather superficial. In many industries, people being trained as tradesmen or as employees with considerably less responsibility or risk get far more extensive training.

If it is suggested that formal class training appears inadequate, the companies frequently emphasize their on-the-job training. However most companies with their existing training staffs couldn't cover their outlets once in a year if each outlet was to receive the help of 1 man for 1 day.

Most oil companies appear to use the "sink or swim" approach. They put a new operator in a station with little or no formal training, and if he succeeds in earning wages and not losing all of his invested capital, he learns from his own experience, and the oil company sales representative on his periodic visits can give some helpful advice as to how to deal with problem areas.

There are many service stations where the odds are that the new operator would fail in any case, whether he was trained or not, and training would simply serve to help him avoid some pitfalls and perhaps postpone the date of the inevitable failure. If he had some training he might know enough not to enter into a lease of the station in the first place.

An operator who learns enough from his own experience and mistakes to succeed in surviving in the service station business will be assisted by the occasional two or three day training school which he may have the opportunity to attend. These are often directed towards product information or sales promotion and this will have more beneficial results for the oil company than an equivalent expenditure in the advance training of new operators.

Operators come and go, many of them stay in the business for only a few months, and approximately 20% of them leave the business each year.

The oil companies make no serious attempt to offer training on a useful scale. They pay only lip service to the concept, and a large part of what is actually done in the name of training is simply sales promotion.

An article in the July 1964 National Petroleum News entitled "How Socal Cuts Dealer Turnover" tells about Standard of California's program for selection and training of dealers which "... maintains the best dealer turnover record in the oil industry". The article states that the oil industry rate of dealer terminations is 25.6% per year, whereas Socal's rate is 10.4%. The retail sales manager of Socal's western U.S. operations attributed his company's success in reducing dealer terminations primarily to two things:—

- (a) careful selection of proposed dealers; and
- (b) a broad range of training given by the company on an extensive scale.

Despite Socal's reported success by using training to cut its rate of dealer turnover, other companies do not appear to be making any significant training effort.

In Alberta the majority of operators consider that more training would be very helpful. In the opinion of the Committee additional training would prevent or solve many of the problems that new operators have. The solution of these problems would tend to make operators more successful and contribute to a decline in the rate of lessee turnover, and in other problems experienced in service stations.



## CHAPTER 9. THE OPERATOR'S EARNINGS, HOURS, AND INDEPENDENCE

### (1) Operator Earnings

A subsidiary of one of the "cartel" companies provided the Committee with particulars of the 1965 gasoline sales, and the sales ratios of several of its service stations and in each case gave an estimate of its dealers' income. The stations had high gallonages and the company advised that the operators were generally good or above average. The particulars of the stations are shown below.

1965 Gasoline Sales (gallons)	Sales Ratio	Estimated Net Earnings (dollars)
395,260 .....	75% / 25%	\$15,520
370,400 .....	71% / 29%	12,050
274,893 .....	68% / 32%	13,800
337,388 .....	84% / 16%	10,200
215,790 .....	68% / 32%	11,198
270,295 .....	66% / 34%	12,665
395,068 .....	72% / 28%	13,967
314,000 .....	91% / 9%	9,847
220,820 .....	91% / 9%	7,314
385,000 .....	83% / 17%	13,480
413,032 .....	87% / 13%	13,164
217,140 .....	87% / 13%	8,676

The Committee interviewed several of these dealers and examined their books of account. In each case checked the operator was in fact making very substantially less than the oil company estimated.

In oil company questionnaire 19, question 115 we asked the companies to state the salary they would expect to have to pay to attract and retain a competent operator for the hypothetical station with a volume of 200,000 gallons and a sales ratio of 70/30.

The salaries stated were as follows:—

Imperial .....	\$ 8,000
B.A. ....	8,000
Royalite .....	6,500
Shell .....	7,200
Total .....	\$29,700

The hypothetical salary for the average operator of the four companies in reply to question 115 was \$7,425.00.

However, in questionnaire 20 in answer to question 117 item (9) the oil companies gave particulars of salaries they actually paid to their operators in their employee operated service stations as follows.

1965 Gasoline Sales (gallons)	Sales Ratio	Operator's Salary (dollars)
107,205	63% / 27%	\$ 4,959
267,395	75% / 25%	5,700
316,714	85% / 15%	3,920
387,126	72% / 28%	7,505
489,962	61% / 39%	5,160
99,657	74% / 26%	4,980
182,169	78% / 22%	5,085
187,119	83% / 17%	4,971
Total .....	2,037,347	\$42,280
Weighted Average .....	254,668	\$ 5,285

In the service station questionnaire in answer to question 100 we obtained the amount of the actual earnings of each operator interviewed. In the case of



18 service stations where the Committee verified this figure by examination of the financial statements of the operator, the particulars were as set out below

	1965 Gasoline Sales (gallons)	Sales Ratio	Operator's Earnings (dollars)
	181,410	78%/22%	\$ 4,028
	146,203	51%/49%	4,680
	169,346	66%/34%	3,150
	221,000	70%/30%	8,236
	147,842	63%/37%	4,470
	152,847	65%/35%	6,057
	173,000	70%/30%	7,715
	203,600	56%/44%	6,500
	203,625	75%/25%	5,528
	152,749	73%/27%	5,400
	260,470	81%/19%	7,200
	177,700	66%/34%	5,467
	183,855	71%/29%	2,400
	168,900	67%/33%	5,000
	175,000	61%/39%	3,000
	259,000	78%/22%	6,563
	162,800	70%/30%	7,700
	233,100	60%/40%	7,580
Total .....	3,373,787		\$100,674
Weighted Average .....	187,433	68%/32%	\$ 5,593

Over 500 retail outlets were interviewed and completed the service station questionnaire. The earnings of the operators of these outlets, classified by the nature of their business opportunity, are shown in Table 11. The first column shows the annual earnings of the operators in each classification, and the hourly rate is derived by dividing the hours worked into the annual earnings.

Table 11  
Averages of Earnings and Hours Worked by Service Station Operators — Alberta, 1965

	Per Year	Per Hour	Hours Worked Per Week
All Service Stations .....	\$6,507	\$1.72	72.88
All Urban Service Stations .....	7,515	2.00	72.22
All Rural Service Stations .....	4,063	1.01	77.34
All Highway Service Stations .....	8,051	1.99	77.75
<b>Owned Service Stations</b>			
Owned Urban .....	\$7,259	\$1.92	72.55
Owned Rural .....	3,905	1.00	75.03
Owned Highway .....	7,673	2.01	73.38
<b>Leased Service Stations</b>			
Leased Urban .....	\$7,543	\$2.01	72.18
Leased Rural .....	4,273	1.02	80.42
Leased Highway .....	8,430	1.97	82.12

Source: Gasoline Marketing Enquiry Records.

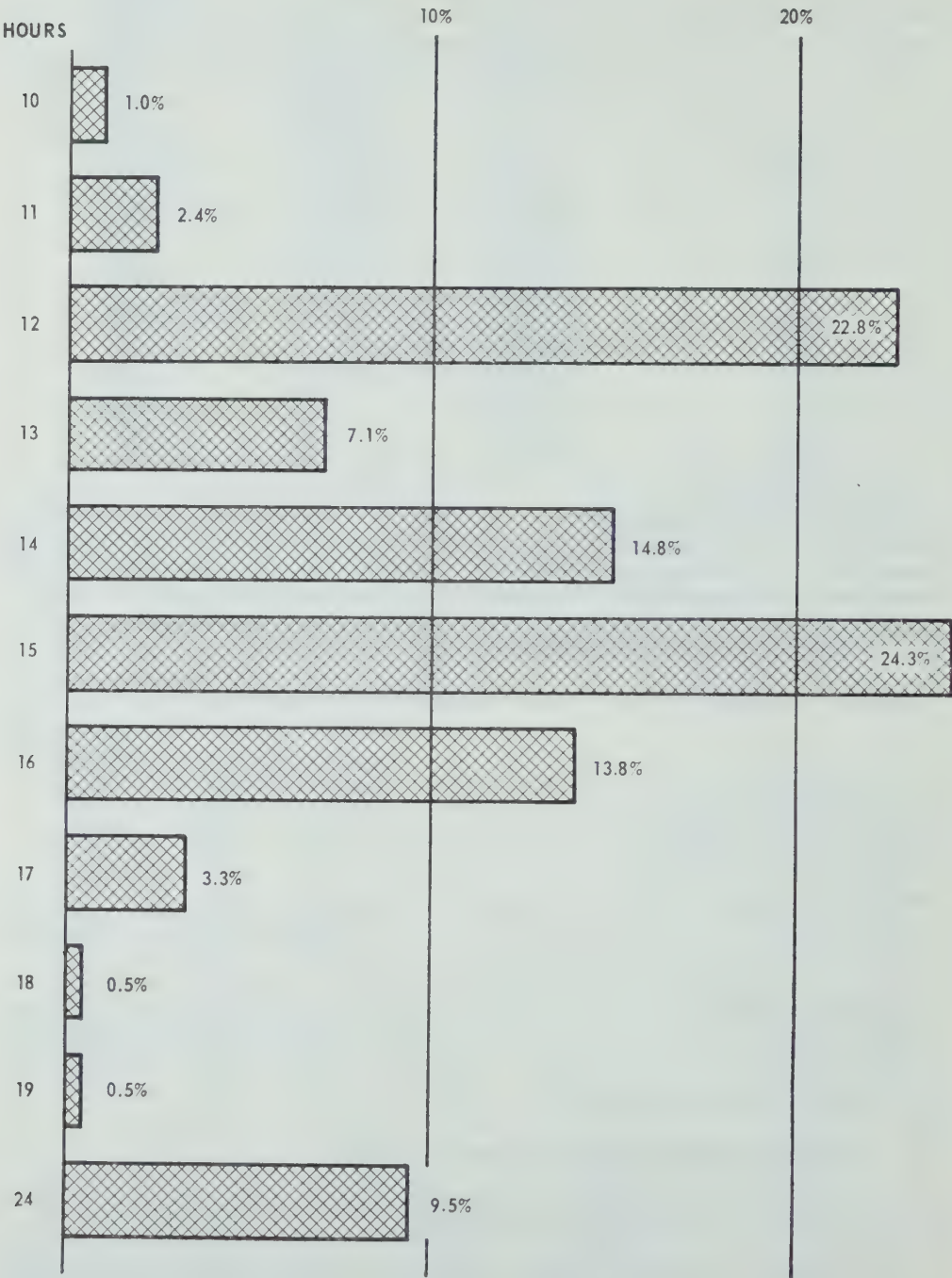
(2) The Service Station Operator's Hours of Work

The complaints of Alberta operators about long hours are similar to those voiced by service station operators elsewhere.

Dr. Lloyd R. Saltzman of the University of Tulsa's Marketing Department and his 17-man class in market research did a survey of service stations in the Tulsa area over a two year period. They found among other things that more than 70% of the operators who quit said they worked more than 70 hours a week. Only 6% said they worked less than 60 hours a week. Four out of every five operators interviewed kept their stations opened 90 hours and over per week. The most mentioned business hours were 7 a.m. to 9 p.m. daily.

CHART 22

SERVICE STATION OPERATING HOURS



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

**Table 12**  
**Service Station Operating Hours**

Hours of Operation	Number of Stations	Percent
10	2	1.0%
11	5	2.4%
12	48	22.8%
13	15	7.1%
14	31	14.8%
15	51	24.3%
16	29	13.8%
17	7	3.3%
18	1	0.5%
19	1	0.5%
24	20	9.5%
Total	210	100.0%

Service Station Questionnaires, Question 34.

The pattern of service station operating hours in Alberta is shown on Chart 22. In the absence of restrictions on hours, most service stations in Alberta are normally open 14, 15, or 16 hours per day. The substantial number of stations showing 12 hours of opening are largely the result of early closing by-laws such as the City of Edmonton early closing by-law. In the absence of such by-laws many of these stations would revert to the normal pattern and be open 15 hours daily.

Most operators find it necessary or advisable to be in their station during most of the hours it is open. Many of them do additional work after hours such as doing accounts, payroll records, checking invoices and inventories, and other administrative duties.

### **(3) Restrictions on Operator's Independence**

Shell Oil in a recent publication stated:

"One motive virtually every service station dealer has in common is to be independent. He was attracted to the service station to be his own boss and to be regarded as a businessman. Surveys indicate that most dealers left jobs in which dependent relationships prevented them doing their best work".

Other oil companies have confirmed to the Committee that the desire to be an independent businessman is what influences most service station operators to enter the business. This was confirmed by the replies of several hundred operators who were interviewed by the staff of the G.M.E.

The oil companies set the service station operator up with an appearance of independence by giving him a lease of premises, by permitting him to invest his money in stock-in-trade, tools and equipment, by letting him run the risk of hiring his own employees, and by permitting him to buy and resell merchandise.

However, most of these apparent rights are restricted or eliminated by a web of contracts and ties which effectively prevent the operator from exercising any real independence. Although he has a lease it is terminable on short notice. His dealership agreement requires him to purchase exclusively the petroleum products distributed by his landlord. If he marks up his price above what the oil company thinks is reasonable it may impose sanctions to deter him. The other merchandise he handles is restricted by directed buying arrangements or full line forcing arrangements supported by national advertising and credit cards. Most "independent business men" at least set their own hours of work, but the service station operator may have his lease terminated or his supply of merchandise cut off if he fails to observe the hours "suggested" by his oil company.

In any aspect of the operation of a service station if the "suggestions" of the oil company and the desires of the operator conflict, the operator knows that if he exercises his "independence" and differs from the "suggestions" of the oil company, his lease can be terminated and that his supply of merchandise for resale can be cut off and there is no reasonable expectation of his being able to continue in business.



This situation arises because the oil company wants to have its cake and eat it too. It has two conflicting purposes, —

- (a) it does not want to assume the problems of running individual service stations and retail outlets, so for this purpose it wishes to preserve the operator's independence,
- (b) it does want to have a large voice in how the service station is run, so for this purpose it wishes to restrict the operator's independence.

To achieve the first purpose the oil company tells the operator he is independent, sells product to him, and treats him as an independent customer.

To achieve the second purpose the oil company uses its control of the premises and its control of the products supplied to compel hundreds of "independent business men" to run their businesses in a uniform way to develop motorist loyalty to the brand name products. The oil company wants to encourage the motorist to regard himself, not as a customer of the service station operator as an independent business man, but as a customer of the products of the oil company.

The oil company considers the service station to be the public image of the oil company, so that the manner in which a service station operates reflects directly on the company which supplies it and may affect the demand for its products. Consequently the oil company feels justified and compelled to dictate to its service station operators in many ways that take away from their independence.

With fully integrated oil companies and the degree of control of retail outlets that they appear to require they make it impossible for a service station operator to have any real "independence."

Accordingly the man who is attracted to become a service station lessee by oil company description of the attractions of becoming an "independent business man" is not permitted to attain the independence he visualized. The man who is induced to invest his savings by oil company descriptions of potentially large profits fails to make a reasonable wage for his time spent and loses his investment.

In the case of many service stations such results are virtually a foregone conclusion based on the station history.

Operator after operator has invested his money, put out his best effort and failed to make a reasonable living. Knowing this the oil company has no hesitation in persuading a new man to become a lessee of the same station with no more money, training or ability than any of his predecessors who failed. Many such persons are poorly qualified and inexperienced and have no knowledge of the tremendous odds against their chances of success.

The oil company appears to have no concern for the individual who is investing his time and his life's savings. He and his money are both treated as expendable in attaining the oil company objective of keeping the service station open for the sale of its brand name products.

#### **(4) The Typical Service Station Lessee**

1. He invests his total savings \$2,000.00 to \$4,000.00 in tools, stock in trade, and operating capital.
2. He works very long hours
  - (a) 12 hours per day, 6 days per week under a municipal closing by-law; or
  - (b) 15 hours per day, 6 or 7 days per week where there are no restrictions on opening;  
in the usually vain hope of building a profitable business.
3. He is very poorly paid — his hourly rate of from \$1.00 to \$2.00 per hour being less than he pays many of his employees.

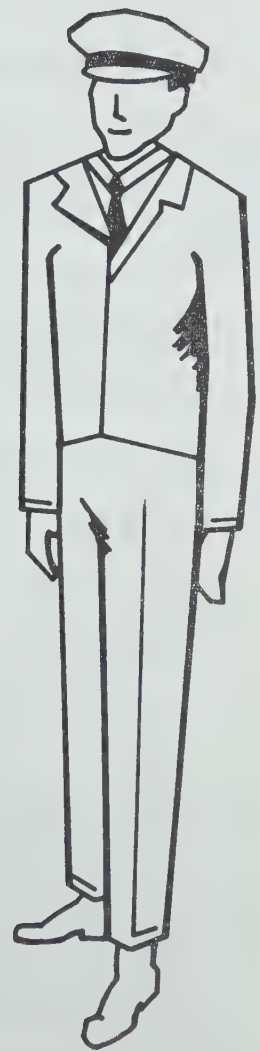


4. He feels restricted and frustrated by numerous oil company ties which limit his freedom and judgment in practically every business decision he expected to be free to make.
5. The restrictions and ties
  - (a) prevent him from doing some things which he knows would be profitable; and
  - (b) require him to do other things which benefit the oil company but which he knows are not profitable for him.
6. He feels no security of tenure and his every decision is influenced by the constant fear of losing the business he has been working to build.
7. He gives up the struggle in less than 5 years, hopeless of being able to earn a reasonable income and having lost part or all of his original investment.

CHART 23

THE TYPICAL SERVICE STATION  
LESSEE

HOURS PER DAY	15 HOURS
HOURLY RATE OF PAY	\$1.72
ANNUAL EARNINGS	\$6,500
AVERAGE INVESTMENT	\$4,000
HAS NO SECURITY	
SUFFERS FROM OIL COMPANY INTERFERENCE	
ABANDONS BUSINESS AFTER 5 YEARS	



## CHAPTER 10. RENT

### (1) Rental Terms for Premises Rented from Oil Company (lessee)

When classifying retail outlets by type of ownership and operation, "lessees" were classified as service station operators who rent their business premises from oil companies which own them or hold a head lease on the premises.

There are 1,201 lessees being 38.3% of all retail outlets. Lessees sell approximately 62% of the gasoline sold at retail.

Although lessees constitute 38% of all retail outlets, they are a much higher percentage of outlets classified as "service stations". Many of the outlets which are not operated by lessees are other businesses with some gasoline sales such as automobile dealers, implement dealers, general stores, etc. Accordingly a majority of service stations are operated by lessees.

In the ordinary landlord and tenant relationship the landlord is primarily interested in two basic concerns, namely

- (a) the collection of rent which provides a reasonable return on his investment; and
- (b) the maintenance of his property in good repair.

In the oil company "lease" these concerns appear to be secondary to the prime purpose. The "lease" is used as a tool for controlling the marketing of the oil company products. The multipurpose contract which is labelled as a "lease" has among its more important purposes a large measure of control of the tenant's business

- (a) requiring the tenant to sell the landlord's products,
- (b) restricting the tenant from selling products that compete with the landlord's products, and
- (c) controlling what products the tenant may advertise on the premises.

This is illustrated by the following clause extracted from a "lease" that one oil company uses in Alberta

"The Lessee will, during the term of this agreement, continuously and exclusively purchase, or cause to be purchased, from the Lessor or its nominee, and from no other, all gasolines, lubricating oils, greases and petroleum products generally and anti-freeze compounds which shall be used, handled, sold or kept for sale on the premises, and the Lessee will purchase or cause to be purchased directly from the Lessor or its nominee, and from no other, any product (including but not limited to tires, tubes, tire accessories, batteries and auto accessories) in addition to petroleum products and anti-freeze compounds which are saleable on the premises and which may, from time to time, be offered for sale or distributed by the Lessor, or by a nominee of the Lessor, and also during the said term and for a period of two (2) years thereafter, the Lessee will not purchase, receive, sell, offer to sell, deal in, handle, keep in stock or dispose of, either directly or indirectly, or permit to be purchased, received, sold, dealt in, handled or disposed of, on or about the premises or on or about any other lands and premises within a radius of two miles thereof owned, leased, occupied or used by the Lessee, any petroleum products or other merchandise and products hereinbefore mentioned in this paragraph, except such as shall have been manufactured or distributed by or purchased from the Lessor or by or from a nominee of the Lessor the intention being that as to all such products and merchandise hereinbefore mentioned, the Lessee shall purchase the same directly from the Lessor or its nominee exclusively and from no other person, firm or corporation whatsoever, it being hereby expressly declared that the foregoing covenant on the part of the Lessee is one of the main considerations for the execution by the Lessor of this lease.

The mere use of conventional terms such as "lease" and "rent" conjures up a picture of the normal landlord tenant relationship involving basic tenant's rights

which are taken for granted by most people. However, for the oil company "lessee" he doesn't have many of these rights, because they are expressly taken away by provisions of his lease, or if he does have them he doesn't dare exercise them in practice.

The relationship of an oil company with its lessees is a very complex one. The lease, and the other contracts which support the lease are drawn by oil company lawyers to give maximum protection and powers to the oil companies.

An oil company lessee who desires to stay in business usually becomes so fearful of the possible consequences of oil company disapproval of his actions that he generally bows to "suggestions" or "requests" of the oil company to an extent that the ordinary independent business man who leases premises from an ordinary landlord would regard as unthinkable.

Of the hundreds of lessees interviewed by the Committee and its interviewers substantial numbers of them indicated that rent was one of their more troublesome problems.

Many operators stated that their rents had been increased six or seven times over as short a period as four or five years. The natural question is "Don't you have a written lease specifying the amount of rent?" Generally the operators replied that the oil company representative simply called with a new lease and asked for surrender of the old one. The operators considered that if they wished to stay in business they had no alternative but to sign the new lease and surrender the old one which is what they did.

One of the first impressions obtained by the Committee and its interviewers was that in many leased stations the rents were extremely low.

Some stations pay no rent — others pay a rent that can only be described as token — and hundreds of stations pay a rate of rent so low that it would not be regarded as economic by the standards of most investors or property owners.

A \$40,000 or \$50,000 home would not rent for less than \$200.00 per month, yet many cases were found where service stations having this value or more would rent for such rentals. Any business premises representing a comparable investment would receive a far higher rental than the rents being paid by many lessees of service stations.

Notwithstanding that an operator may have experienced rental increases annually or more frequently over a period of five or six years, his rentals still appeared to be below those that most real estate investors would charge for a lease of premises representing a similar capital investment.

However, a few high gallonage stations where rents prescribed in the lease are related to gallonage or to a percentage of profit may produce a rental which is equal to or in excess of a return that would be economic having regard only to the investor's capital investment or the value of the premises.

These impressions of our interviewers were borne out by the findings of the Alberta Royal Commission in 1940 which found at that time that leased stations received a rental subsidy averaging about 1½ cents per gallon.

Similarly the Royal Commission on Gasoline Price Structure in the Province of B.C. in its 1966 report found that the rental subsidy in 1963 in British Columbia amounted to 1.8 cents per gallon if no return on capital was considered and 2.35 cents per gallon if a return on capital of 10% is considered.

Our interviewers found in many cases that lessees in stations representing comparable investments paid widely different rentals. In two stations which looked practically identical the interviewers would find that one lessee was paying substantially less rent than the other lessee. There appeared to be a degree of relationship between rent and volume, in that the lessee with a low volume generally paid considerably less rental than the lessee with the high volume even though both stations appeared to have a similar capital investment.



Table 13.  
Outlets Valued Approximately The Same Have Widely Differing Rental Rates

Oil Company Estimate of Current Market Value	Annual Actual Rent	Gallons	Rents in Cents/Gallon
\$30,000	\$ 270	57,000	0.47
32,200	167	33,417	0.50
34,000	1,777	29,500	6.02
35,000	1,515	64,975	2.33
37,800	2,435	149,760	1.63
38,700	2,635	137,050	1.92
40,000	1,200	93,000	1.29
40,500	1,540	109,074	1.41
40,800	3,904	189,190	2.06
41,000	4,219	306,940	1.37
43,000	4,871	296,225	1.64
44,100	2,889	168,900	1.71
45,000	0	40,000	0
45,000	2,100	132,000	1.59
47,000	2,247	49,840	4.51
50,000	1,518	148,000	1.03
50,000	7,590	457,000	1.66
50,600	3,448	152,800	2.26
51,400	7,066	320,520	2.20
54,300	2,258	136,325	1.66
55,000	3,200	138,000	2.32
55,000	2,017	67,678	2.89
55,000	1,800	157,000	1.15
56,300	3,371	121,375	2.78

Source: Gasoline Marketing Enquiry Records.

This conformed to the complaint of the operators. They stated that they would work hard to build up their business, increase their gallonage, with a view to increasing their income, and then find that the fruits of their efforts would be taken away by an unexpected rent increase imposed by the company.

As an illustration one operator was leasing his station in 1961 for \$3,700 per year. He had annual rental increases over a five year period which more than doubled his rent to \$7,800 per year.

During the same period the operator increased his gallonage from approximately 300,000 gallons per year to approximately 420,000 gallons per year being an increase of 120,000 gallons. At the operator's mark-up of approximately 9 cents per gallon, the increase in volume increased his gross profit by approximately \$11,000 per year. However, to dispense the additional gallonage he required two additional pump attendants who were paid approximately \$4,000 each per year and he paid additional rent to his oil company of \$4,100 per year so the additional expense of \$12,100 per year exceed the additional revenue from his increase in gasoline volume.

The operator obtained no financial reward for his strenuous and successful efforts to increase his gasoline volume.

The impression about rents being related to volume of gasoline sold was also borne out by the replies of some oil companies, who indicated that their rentals were based not on the investment or capital value of the premises but on the "... business opportunity offered to the lessee". Thus if a lessee had a better business opportunity (more volume) then he would be expected to pay a higher rental. The conclusions of the interviewers accordingly were

- (a) most lessees obtain the benefit of a rental subsidy;
- (b) rents vary greatly between stations representing approximately the same capital investment;
- (c) the rental subsidy is greater in low volume outlets and less in high volume outlets; and
- (d) in many cases new lessees start out at a low rental which increases sharply after they have had a reasonable opportunity to become established and thereafter increases as volume increases.



The Committee submitted two questionnaires to the oil companies relating to the question of rent. The first of these, questionnaire 2, dealt with general rental policy.

Some oil companies give leases in which the rental is expressed as a designated number of dollars per month. Other companies give leases where the rental is expressed as a certain number of cents per gallon based on the monthly gallonage of the station. Still others use leases where the rental is expressed as a percentage of the gross revenue from the station, which of course would include revenue from sales of merchandise other than petroleum products and revenue from repair operations. Some leases are expressed as a combination of two or more of the above methods, e.g. a basic rental of \$100.00 per month plus 1 cent per gallon based on gallonage sold.

One company which expressed its rents in a fixed number of dollars per month advised us as follows:

"Rent for each service station in Alberta is assessed in relation to the business opportunity available at that location. This business opportunity is measured in terms of the profit available to the lessee from the various goods and services sold, including gasoline and other petroleum products, tires, batteries and automotive accessories and also labor and services provided."

"Rents charged for Alberta service stations are based on a percentage of the profits earned from the sale of all goods and services. In the case of established outlets, profits are usually assessed on the basis of the preceding year. In the case of new service stations, projected profits are used. Profit is the measure of business opportunity at the outlet."

This company stated that it did not attempt to obtain a percentage return on its invested capital.

"The company has, however, no rigid return target for a particular time period against which a specific location is judged".

"While there is no rigid relationship to capital in terms of a specific return on investment, as rents are related to business opportunity, there tends to be a general relationship. This is so because in many instances the greater business opportunities will require higher investment.

"A detailed profit analysis for the outlet is prepared. Rent is then calculated as a percentage of the profit determined from this analysis".

Another company reported that its service station leases are governed by four basic principles:

- (1) "that rentals shall be common to all for comparable facilities under comparable circumstances";
- (2) "that rentals shall be subject to adjustment in special cases which require special consideration";
- (3) "that rentals shall meet as nearly as we can judge the current practices of competitors in the trade"; and
- (4) "that rentals shall be subject to periodic review and adjustment if necessary to reflect our assessment of current economic conditions in the market place".

In fixing its rents this company takes into consideration a large number of factors including

"... the estimated number of customers which will patronize the location, the probable level of gasoline sales volume and the general competitive conditions prevailing in the trade." "For service stations which are new and striving to become established, for old stations which have been subjected to extra-ordinary operating circumstances such as road construction or diversion which may alter drastically the normal pattern of business, or for stations which are being re-activated after a period of involuntary idleness, (the company) may elect to waive a part or all of the rental which it considers fair, reasonable and competitive at the location until the lessee-dealer's operation can be brought up to normal conditions".

This company reported that in general its capital investment in an outlet did not determine the rent charged for that outlet.

Its rentals are normally expressed by a combination of a designated number of dollars per month plus 1c per gallon.

This company classifies its stations into categories. For each category it establishes a number of dollars per month as the most common rate for that category. However, a large percentage of the outlets in that category may be "... judged by the company to be operating currently under extra-ordinary circumstances and, therefore, not worth as much as normal units". For such units the

monthly dollar rental will be substantially reduced. A smaller percentage of such units "are judged by the company to be worth more than the normal units" and for these the monthly dollar rental may be increased.

For each classification of units accordingly the basic dollar per month rental may fluctuate widely as between outlets, and in addition each outlet pays 1c per gallon.

A third company stated that in fixing its service station rentals it took into consideration anticipated volume of business expected at the particular service station location, and the status of the prospective lessee. In some leases it used a dollar rental, in other leases it used a cents per gallon rental, and in other cases it used the combination of the two. It had as an objective a percentage return on its invested capital but the Committee's examination of rentals paid in individual service stations of this company indicated that relatively few of its outlets provided the percentage return which was the stated objective.

A fourth company reported that in fixing the rental to be paid by a lessee it took into consideration the lessee's need to earn a livelihood and to have sufficient margin to operate the outlet efficiently and progressively. This company did not attempt to obtain a percentage return on its invested capital. The company made an estimate of the lessee's gross profit and it used a percentage of this figure as a guide when negotiating its rent.

A fifth company outlined the general principles it followed with respect to rents charged lessees for service station properties as follows:

"Recognizing that our investment in service station properties is basically a method of providing satisfactory sales outlets for the company's products, we do not attempt to measure investment profitability in terms of rental received only. It is our objective to obtain a satisfactory rate of return from our service stations having regard for the profit we earn through supply of gasoline, lubricants, tires, batteries and accessories as well as the direct rental revenue.

Regardless of what a service station may have cost to construct, its worth to an operator comes from the opportunity it affords him to sell products, provide services and make a profit. Accordingly, we believe that the rental charged to a lessee should reflect the value to him, as a business location, of the facilities he is renting. A relatively inexpensive facility in a highly desirable location often provides better profit opportunities than a more expensive facility which has been by-passed by road redevelopment or which is located in an area which has not yet matured up to a point of providing a high volume of business.

We believe that the fairest way of determining service station rents is to charge the operator a percentage of his gross revenue as rent.

In this way, the lessee pays rent in accordance with the worth of the service station to him, and the onus falls upon the company to locate its service stations in such a manner that rental revenue and profits from product sales justify the investment."

This company stated that it did not attempt to obtain a percentage return on its invested capital.

In its actual leases the rental is expressed either in terms of a certain number of dollars per month or a certain number of cents per gallon. Although the rent is expressed in these forms, the actual rate is based on the oil company's estimate of the gross revenue derived from the service station by the operator which is a measure of the value of the facilities to him.

In some of its leases the rental is actually expressed as a designated percentage of gross revenue, and the percentage used varies with the classification of service station according to its business opportunity.

One company has a formula which

"... consists of two major elements:

1. 1.0c per gallon on motor fuel sales

plus

2. 6% of all "other" sales.

("other" sales are total gross sales less motor fuels)

This formula continues our practice of rental being a function of any individual location's business opportunity.

The cents per gallon portion of the formula is intended to reduce the influence of variations in tank truck prices and provincial taxes in any calculation of rentals. If a formula is based entirely on a gross sales measure, then dealers in high taxation or high cost delivery areas pay a penalty compared to other dealers in lower cost

areas. At the same time it was recognized that gasoline as a percent of total sales varies substantially between locations and provides only one indices of the business opportunity. Therefore, the percentage of "other" sales, when coupled with the 1.0c per gallon, helps provide this balance between operations.

The assessment of rent as a percentage of total sales is an established and accepted method recognized in retail businesses ranging from men's wear to restaurants. While absolute values frequently vary from 5% to 10% of retail sales, the combination proposed by (the company) approximates only about 3% of total gross sales."

"The retailer will . . . always know from month to month and year to year exactly what his rent will be."

"The rent will be payable, based on current monthly gasoline sales and the previous year's 'other' sales for the corresponding month."

The application of the above formula is illustrated by three sample calculations:

#### Examples — Service Station Rentals

Outlet — 275,000 gals.		Sales Ratio — 70/30
Motor Fuel, 275,000 @ 43c .....	\$118,000	
"Other" Sales .....	52,000	
Total Sales .....	\$170,000	
Rental Calculation:		
1c per gal. ....	\$ 2,750	
6% "Other" .....	3,120	
Total Rent .....	\$ 5,870	
Rent % of Total Sales .....	3.4%	
Outlet — 400,000 gals.		Sales Ratio — 75/25
Motor Fuel, 400,000 @ 43c .....	\$172,000	
"Other" Sales .....	58,000	
Total Sales .....	\$230,000	
Rental Calculation:		
1c per gal. ....	\$ 4,000	
6% "Other" .....	3,480	
Total Rent .....	\$ 7,480	
Rent % of Total Sales .....	3.2%	
Outlet — 700,000 gals.		Sales Ratio — 85/15
Motor Fuel, 700,000 @ 43c .....	\$300,000	
"Other" Sales .....	53,000	
Total Sales .....	\$353,000	
Rental Calculation:		
1c per gal. ....	\$ 7,000	
6% "Other" .....	3,180	
Total Rent .....	\$ 10,180	
Rent % of Total Sales .....	2.9%	

Many operators foresaw either a reduction in their income or an increase in customer prices by reason of the application of this new formula.

One operator pointed out that his markup on merchandise was 20% of the wholesale price whereas his rent was calculated at 6% of his retail receipts. Each dollar spent for merchandise at wholesale would give a 20c markup of which over 7c would be paid to the oil company in rent. The rent accordingly exceeds a third of the operator's gross profit on sales of merchandise.

Another operator pointed out that this new rental formula would cut his profit almost in half on mechanical work that he "farms out" to a specialty repair establishment. He used the illustration of a \$300.00 repair job in which the customer was billed \$225.00 for parts and \$75.00 for labor. The service station operator presently receives a commission of 17% of the amount billed to the customer for parts, but no percentage on the labor. Accordingly, out of the \$300.00 collected from the customer, the service station would retain \$38.00 paying the balance to the specialty repair shop. The new rental formula would require 6% of the total bill to the customer, namely — \$18.00, to be paid to the oil company. The operator's former gross profit of \$38.00 is accordingly reduced to \$20.00.



In the case of some service stations with a high volume of repair business, the application of this new rental formula will double the rent previously paid by the lessee.

Service station operators point out a problem with any rental formula based on a percentage of gross sales.

Rent in any form is a cost which the operator has to recover from the customer. However, when rent is a percentage of gross sales the operator is more conscious of the need for passing it on and adding it to his customer's bill.

As an illustration, if a customer is having trouble with his car and brings it in to the service station, the operator will talk to the customer to determine the nature of the problem and the mechanic will then inspect and test to diagnose it. If it involves some major specialized repair, such as replacement of a transmission, the operator usually discusses it with the customer to get his authorization, then delivers the car to a garage specializing in such repairs, and later picks it up for return to his customer. The operator will bill the customer for the total cost and will have to assume the risks of collection. If the specialist's repair bill payable by the operator is \$260.00 and the operator requires a further \$22.00 for the time and services of he and his staff, he would have to bill the customer \$282.00. However, in order to realize this amount, he must allow for a payment to the oil company of 6% of the amount billed to the customer, so he will have to add a further \$18.00 making the customer's bill \$300.00. If rent is a fixed dollar amount there is less tendency to add a fixed percentage to each sale to cover it.

The replies of the remaining oil companies relating to rental policy were in a similar vein to those previously outlined.

All the companies seemed to be saying pretty much the same thing, whether they called it "business opportunity" or "cents per gallon of gasoline sales" or a percentage of "the gross revenue derived from the service station by the operator" or a designated number of dollars based on "a percentage of the company's reasonable estimate of the lessee's gross profit".

Most companies clearly stated that they did not fix their rent with the purpose of producing a percentage rate of return on invested capital.

## **(2) Rental Subsidies**

In comparing problems of lessees with problems of owners, the relative occupancy costs of each are one item of comparison. The question to be determined is whether rents based on "business opportunity" or a "percentage of sales" are as large an occupancy cost as those of an owner who must take into consideration a percentage rate of return on invested capital. If an outlet is owned by someone other than an oil company, he normally looks for or has to pay a percentage rate of return on invested capital. Even the owner of an outlet who is borrowing money from an oil company by way of mortgage has to repay the money and pay a designated rate of interest on the dollars advanced by the oil company as the holder of the mortgage.

The problem was how to determine the existence and measure the rate of rental subsidy enjoyed by lessees from oil companies.

With a view to obtaining data from which the rental subsidy could be measured in individual stations, the general questionnaire on rental policy was followed by a more specific questionnaire relating to the rents of individual stations, namely, questionnaire 11 the "Service Station Rental Report". The Committee obtained from each oil company a report giving particulars of each service station which was occupied by a lessee during 1965.

There were some oil companies which followed a practice of having investors build stations for them on a leaseback basis. The oil company would take a lease from the investor for a long term of years and would then sublease the station to an operator as lessee. In other cases developers of shopping centres would make provision for a service station which could only be obtained by the oil company by way of lease and it similarly was sublet to an operator lessee.



The Committee considered that the difference between the rent paid by the oil company to the developer, and the rent collected by the oil company from its lessee, would provide one of the more precise measures of the rental subsidy in individual cases.

The differences in rents paid and received would give the rental subsidy in dollars per year. By obtaining the gallonage sold by each such outlet the rental subsidy could also be determined in cents per gallon. The rental subsidy in such outlets is apparent from the data relating to such service stations shown in Table 14.

Table 14.  
Rental Subsidy Where Oil Company Holds Head Lease

Rental Paid By Oil Company To Landlord	Rental Paid By Operator To Oil Company	Subsidy in Dollars	Annual Gasoline Gallonage	Subsidy in Cents/Gallon
\$ 7,071	\$4,200	\$ 2,871	282,725	1.02c
7,292	4,320	2,972	204,095	1.46
6,099	4,200	1,899	239,315	0.79
7,252	4,800	2,452	409,930	0.60
7,900	300	7,600	104,230	7.29
6,240	1,500	4,740	80,135	5.92
9,774	1,350	8,424	69,520	12.12
3,791	12	3,779	87,330	4.33
5,874	3,000	2,874	224,375	1.28
7,424	3,300	4,124	140,730	2.93
4,079	3,520	559	230,250	0.24
6,511	3,450	3,061	268,105	1.14
2,700	1,630	1,070	71,483	1.50
5,100	3,600	1,500	64,000	2.34
4,920	4,800	120	121,100	0.10
4,533	1,827	2,706	152,690	1.77
5,079	256	4,823	44,044	10.95
3,657	1,500	2,157	92,300	2.34
4,861	1,977	2,884	167,725	1.72
4,455	1,200	3,255	77,280	4.21
5,900	3,000	2,900	135,830	2.14
6,000	1,120	4,880	106,860	4.57
6,165	5,850	315	203,600	0.15
5,628	4,800	828	154,650	0.54
7,696	3,300	4,396	150,300	2.92
8,794	2,000	6,794	119,500	5.68
7,005	12	6,993	73,550	9.51
7,255	3,775	3,480	312,040	1.12
8,589	7,200	1,389	221,800	0.63
6,567	4,200	2,367	137,225	1.72
20,774	6,268	14,506	346,522	4.18

Source: Gasoline Marketing Enquiry Records.

The Committee examined 293 service stations where the owner granted a lease to one of the subsidiaries of the "cartel" companies and the company in turn sublet to a lessee operator.

The service stations were grouped by gallonage ranges. Table 15 illustrated by Chart 24 shows the average rent collected from the operators in each gallonage range as compared with the average rent paid by the oil company and shows the average subsidy in dollars per outlet. It is to be noted that the average rent collected from the operator increases as gallonage increases.

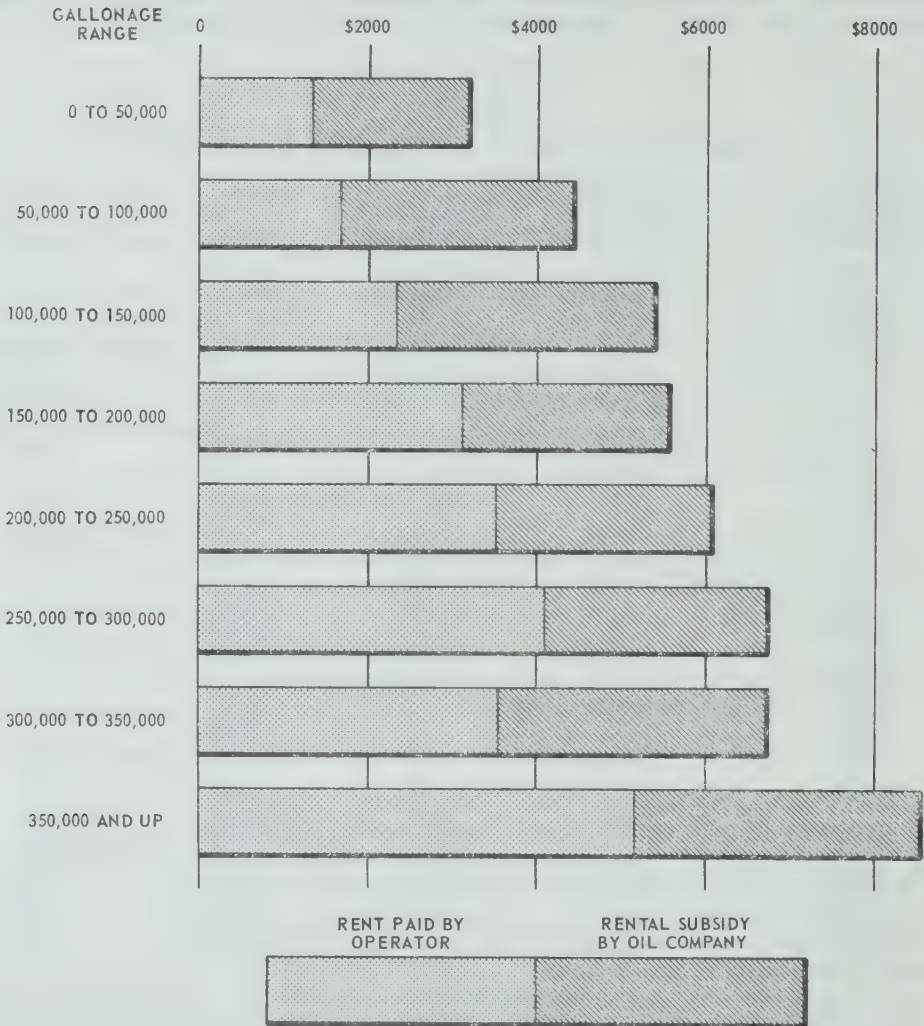
However, even in stations with large gallonage and high rentals, the average rent collected from the operator is not as large as the average rent paid by the oil company. On the over-all average the oil company pays twice as much rent to its landlord as it succeeds in collecting from its service station operator.

In the lower gallonages the rental subsidy exceeds the dollars of rent collected, whereas in the high gallonages the subsidy is less than the dollars of rent collected from the operator.

CHART 24

**RENTAL SUBSIDY - ALBERTA 1965**

(Dollars per outlet)

WHERE 'CARTEL' COMPANY HOLDS HEAD LEASE

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

Table 15.

**Rental Subsidy (\$ Per Outlet) Where "Cartel" Company Holds Head Lease — Alberta, 1965**

Gallonage Range ('000 Gals.)	No. of Outlets	Average Gallonage	Average Rent Collected From Operator	Average Rent Paid by Oil Company	Average Subsidy
0 - 50	31	27,807	\$1,328	\$3,204	\$1,876
50 - 100	72	76,053	1,716	4,475	2,759
100 - 150	83	122,841	2,294	5,400	3,106
150 - 200	53	168,656	3,093	5,582	2,489
200 - 250	24	223,736	3,532	6,136	2,604
250 - 300	15	280,187	4,132	6,729	2,597
300 - 350	6	310,441	3,534	6,701	3,167
350 and up	9	480,755	5,194	8,554	3,360
293					
Overall Average		140,731	\$2,504	\$5,225	\$2,721

Source: Questionnaire 11.

Table 16 illustrated by Chart 25 expresses in cents per gallon, the rent collected from the operator, the rent paid by the oil company and the subsidy. This table clearly demonstrates the economies in costs per gallon that are achieved by operating larger outlets. Expressed in cents per gallon the rent collected from the operator, the rent paid by the oil company, and the average subsidy are all highest in the low gallonage ranges and they decline uniformly as increasing gallonages are sold. The high volume stations have the lowest per gallon costs in every category. On the over-all average the rental subsidy per gallon exceeds the rent per gallon collected from the operator.

In the case of service stations owned by an oil company the rental subsidy is more difficult to measure. You have to start out with a value for the "capital invested" in the service station and a "rate of return" on invested capital. Accordingly for each service station the Committee asked different questions designed to give value figures arrived at by different methods for different purposes. This would give a range of values for each outlet and provide some data for comparing the value of outlets.

In the case of service stations where the land was acquired by the oil company and the buildings constructed by the oil company, it was necessary to arrive at a reasonably current valuation of the premises which would be the basis for calculation of rental at a normal rate of return expected by an investor. This calculated rental could then be compared with the actual rental for that station to determine a less accurate computation of subsidy.

Accordingly in question 10 to have some guides for valuation of the land or the site we asked the oil companies for information about the year or years the land was acquired, the price paid for each parcel acquired, and the total land cost. We also asked for the 1965 land assessment. The oil company was requested to give its best estimate of the current market value of the land alone.

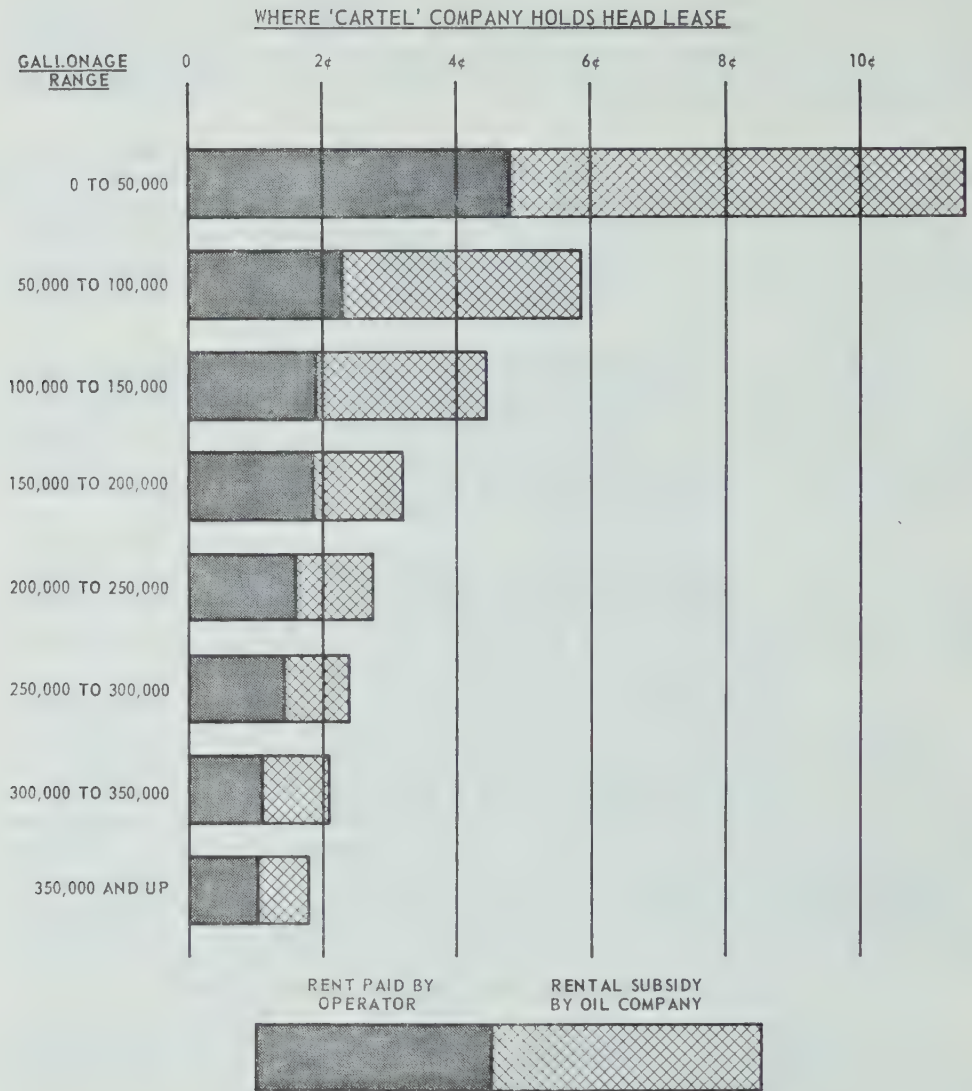
With respect to buildings, some outlets have new buildings other outlets have old buildings, and in the case of some old buildings there has been a continuous process of renovation or modernization which almost amounts to rebuilding. Accordingly with respect to buildings we asked for the building cost and the year of each expenditure, coupled with the cost of major additions or improvements and the year of expenditure in each case. We also asked for the cost of equipment installed and for the approximate total cost of the buildings and equipment. The company was asked to provide the 1965 assessed values of the improvements at each station, the amount of insurance on the buildings and equipment on each station and the oil company was requested to give its best estimate of the present market value of the station including lands, buildings and equipment.

With this kind of information about each service station from the oil companies the Committee considered that an approximate valuation could be arrived at and a rental could be computed based on this valuation which could be compared with the rents actually paid and collected for that station.

Question 5 asked for the rental rates specified in the lease applicable to the station during 1965. Question 6 and 7 asked for the annual gallonage sold to the station over the five year period from 1961 to 1965 and question 7 asked for the dollar amount of rent collected by the oil company from the lessee during the same period.



CHART 25  
**RENTAL SUBSIDY- ALBERTA 1965**  
(CENTS PER GALLON)



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

Table 16.  
**Rental Subsidy (Cents Per Gallon) Where "Cartel" Company Holds Head Lease — Alberta, 1965**

Gallonage Range ('000 Gals.)	No. of Outlets	Average Gallonage	Average Rent Collected From Operator	Average Rent Paid by Oil Company	Average Subsidy
0 - 50	31	27,807	4.78c	11.52c	6.74c
50 - 100	72	76,053	2.25	5.88	3.63
100 - 150	83	122,841	1.87	4.40	2.53
150 - 200	53	168,656	1.83	3.31	1.48
200 - 250	24	223,736	1.58	2.74	1.16
250 - 300	15	280,187	1.47	2.40	0.93
300 - 350	6	310,441	1.14	2.16	1.02
350 and up	9	480,755	1.08	1.78	0.70
293					
Overall Average		140,731	1.78c	3.71c	1.93c

Source: Questionnaire 11.



In several cases the answers to the general rental questionnaire indicated that rentals were based on the oil company's estimates of the profits or the business opportunity of the lessee. Accordingly question 8 asked for the oil company estimate of the net profit of the lessee for the same five year period.

Although the quality of the data produced by the various oil companies in response to questionnaire 11 varied greatly, the data clearly confirmed the findings of our lessee interviews, namely — that there is a substantial rental subsidy to most lessees and that the subsidy is greater in lower volume stations.

The Committee did various calculations, using different valuations such as oil company estimates of market value, oil company cost figures, and assessed values of lands and of buildings converted to fair actual value. The Committee used various rates of return for invested capital within normal ranges.

In general although the rate of subsidy varied, depending on assumptions of value and assumed rates of return on investment, the calculations confirmed that a rental subsidy exists in large numbers of outlets, and that the rate of subsidy is higher in low volume outlets.

In oil company questionnaire 20 we asked the oil companies for particulars of the expenses actually incurred in their employee operated stations. Each company prepared a separate report for each station.

A subsidiary of one of the "cartel" companies placed the following note on each report submitted:

"It must further be noted that full occupancy costs have been charged and undoubtedly exceed the rent which would be obtained from a lessee".

This statement appears to confirm that lessees generally do not pay "full occupancy costs" and that the oil company subsidizes them.

The existence of a rental subsidy aggravates four problems about which retailers complain—

- (a) the rent subsidy helps to maintain inefficient low volume stations in business which can't afford to pay an economic rent, but which reduce the volume available for other outlets;
- (b) owners of service stations who compete with lessees pay the same price for petroleum products, but the owner does not have the benefit of the subsidy of 2c, 3c or 4c per gallon which gives the lessee a tremendous competitive advantage in a business where the total mark up is only 8c per gallon and the operator's profit is approximately 1c per gallon;
- (c) the lessee's complaints about frequent rent increases originate from the fact that the oil company wants to reduce its subsidy as quickly as the increases in volume sold by the lessee enable a reduction of the subsidy; and
- (d) a rental subsidy of 2c or 3c per gallon benefits an operator as much as a price reduction of 2c or 3c per gallon, and there are complaints of discrimination where one lessee gets a greater subsidy than another, and where the oil company gives a subsidy to lessees which it does not give to owners selling the same brand of products.

Some results from this questionnaire are indicated on the following tables.

Table 17.

**Rental Subsidy Where Oil Company Holds Title  
Calculated on Oil Company Estimate of Current Market Value**

Oil Company Estimate of Current Market Value	Annual Amount Allowed for Depreciation and Return on Investment	Rent Paid by Operator to Oil Company	Subsidy in Dollars	Annual Gallorage	Subsidy in Cents/Gallon
\$ 85,000	\$ 8,500	\$3,800	\$ 4,700	185,000	2.54c
75,000	7,500	2,400	5,100	151,000	3.38
50,000	5,000	1,800	3,200	105,000	3.05
70,000	7,000	4,150	2,850	192,000	1.48
90,000	9,000	3,780	5,220	173,000	3.02
200,000	20,000	3,000	17,000	199,000	8.54
35,000	3,500	1,300	2,200	97,000	2.27
75,000	7,500	3,000	4,500	221,000	2.04
98,700	9,870	3,784	6,086	184,840	3.29
80,000	8,000	3,762	4,238	147,150	2.88
47,000	4,700	2,247	2,453	49,840	4.92
46,500	4,650	1,900	2,750	84,960	3.24
40,500	4,050	1,540	2,510	109,074	2.30
54,300	5,430	2,258	3,172	136,325	2.33
55,000	5,500	2,017	3,483	69,678	5.00
125,500	12,550	4,025	8,525	142,919	5.96
35,000	3,500	1,515	1,985	64,975	3.06
44,100	4,410	2,889	1,521	168,900	0.90
85,200	8,520	1,937	6,583	122,460	5.38
105,000	10,500	4,200	6,300	184,215	3.42
70,000	7,000	3,203	3,797	136,190	2.79
86,200	8,620	2,089	6,531	92,315	7.07
34,000	3,400	1,777	1,623	29,500	5.50
76,600	7,660	3,763	3,897	153,900	2.53
68,800	6,880	2,098	4,782	95,675	5.00
59,200	5,920	2,056	3,864	128,485	3.01
62,500	6,250	2,863	3,387	115,785	2.93
113,300	11,330	4,567	6,763	176,875	3.82
72,000	7,200	3,016	4,184	115,320	3.63
81,575	8,158	2,342	5,816	191,730	3.03

Source: Gasoline Marketing Enquiry Records.

Table 18.

**Rental Subsidy Calculated on Station Cost**

Station Cost	Annual Amount Allowed for Depreciation Interest on Investment etc.	Annual Rent	Annual Subsidy	Gallorage	Subsidy in Cents Per Gallon
\$138,322	\$13,832	\$4,400	\$ 9,432	259,000	3.64c
52,751	5,275	1,518	3,757	148,000	2.54
84,119	8,412	600	7,812	145,000	5.39
113,785	11,379	4,800	6,579	242,000	2.72
189,075	18,908	3,000	15,908	199,000	7.99
40,463	4,046	1,540	2,506	109,074	2.30
52,253	5,225	2,258	2,967	136,325	2.18
53,715	5,372	2,017	3,355	69,678	4.82
48,124	4,812	1,515	3,297	64,975	5.07
49,352	4,935	1,922	3,013	100,075	3.01
42,026	4,203	2,250	1,953	91,370	2.14
82,645	8,265	1,500	6,765	148,385	4.56
113,918	11,392	1,055	10,337	105,832	9.81
79,035	7,904	1,596	6,308	117,580	5.36
89,642	8,964	1,367	7,597	64,950	11.70
92,926	9,293	4,100	5,193	32,209	16.12

Source: Gasoline Marketing Enquiry Records.

**Average Rent in Cents per Gallon classified by Brand**

In question 96 we requested the oil companies to divide the total dollar rental received from all lessees by the total gasoline gallonage sold through service stations operated by lessees to obtain an average rental in cents per gallon. These results showed a high degree of uniformity between companies of the same class.

Class of Company	Average Rent in Cents Per Gallon
"Cartel" Brand Companies .....	1.87c
"Other" Brand Companies .....	1.90c
Off Brand Companies .....	1.28c
All Companies (weighted average) .....	1.85c

In the service station rental reports relating to each station provided by the oil companies in reply to questionnaire No. 11, the companies similarly advised us of the dollar amounts of rental received and the total gasoline gallonage sold. These totals differed from those provided in answer to question 96. The average rent in cents per gallon derived from using these figures is as follows:

Class of Company	Average Rent in Cents Per Gallon
"Cartel" Brand Companies .....	1.82c
"Other" Brand Companies .....	1.76c
Off Brand Companies .....	2.06c
All Companies (weighted average) .....	1.82c

Table 19.  
Rent as a Percentage of Oil Company Estimates of Dealer Profit

Oil Company 1966 Estimate of 1965 Profit	Actual 1965 Rent	Oil Company 1966 Estimate of Net Profit Before Rent	Rent as a Percentage of Profit Before Rent
\$ 4,800	\$2,400	\$ 7,200	33.3%
15,700	6,330	22,030	28.7%
9,400	5,935	15,335	38.7%
5,000	7,337	12,337	59.5%
13,000	5,100	18,100	28.2%
13,000	5,110	18,110	28.2%
4,300	1,200	5,500	21.8%
14,000	6,360	20,360	31.2%
10,000	6,200	16,200	38.3%
12,000	6,000	18,000	33.3%
8,700	2,850	11,550	24.7%
9,200	3,600	12,800	28.1%
7,000	5,580	12,580	44.4%
13,800	4,960	18,760	26.4%
6,500	5,400	11,900	45.4%
10,000	6,420	16,420	39.1%
11,000	4,500	15,500	29.0%
10,800	4,800	15,600	30.8%
7,000	1,800	8,800	20.5%
11,400	5,220	16,620	31.4%

Actual Rent appears to be in the range of 20% to 45% of the oil company estimate of the Dealer's Profit.

Source: Questionnaire 11.

Table 20.

## Average Rent by Gallonage Range, Leased Stations — Alberta, 1965

Gallonage	No. of Stations	Average Rent
15,000 - 30,000	8	\$ 963.00
30,000 - 60,000	35	1,092.00
60,000 - 90,000	46	1,296.00
90,000 - 120,000	69	2,146.00
120,000 - 180,000	76	3,117.00
180,000 - 240,000	66	4,029.00
240,000 - 360,000	54	4,939.00
360,000 - 480,000	9	5,751.00
480,000 - 600,000	8	7,913.00

Source: Questionnaire 11, Question 53(7).

Table 21.

## Average Rental Subsidy by Annual Gallonage Category (Cents Per Gallon)

Gallonage Range	Average Subsidy
0 - 7,000 gallons	47.56c per gallon
7,000 - 15,000	15.11
15,000 - 30,000	5.62
30,000 - 60,000	4.03
60,000 - 90,000	4.72
90,000 - 120,000	2.67
120,000 - 180,000	2.24
180,000 - 240,000	2.48
240,000 - 360,000	1.62
360,000 - 480,000	1.37
480,000 - 600,000	1.16
600,000 - 720,000	0.94
720,000 and over	0.14

## Average Subsidy for All companies — 2.95c per gallon

Source: Gasoline Marketing Enquiry Records.

Table 22.

## Average Rental Subsidy by Annual Gallonage Category

"Cartel" Outlets	Gallonage Range	Average Subsidy
	0 - 7,000 gallons	130.47c per gallon
	7,000 - 15,000	34.25
	15,000 - 30,000	7.47
	30,000 - 60,000	5.55
	60,000 - 90,000	5.04
	90,000 - 120,000	2.97
	120,000 - 180,000	2.38
	180,000 - 240,000	2.58
	240,000 - 360,000	1.57
	360,000 - 480,000	1.48
	480,000 - 600,000	1.30
	600,000 - 720,000	0.94
	720,000 and over	0.92
Other Outlets	0 - 7,000 gallons	32.71c per gallon
	7,000 - 15,000	2.53
	15,000 - 30,000	4.70
	30,000 - 60,000	3.17
	60,000 - 90,000	4.20
	90,000 - 120,000	2.30
	120,000 - 180,000	1.51
	180,000 - 240,000	0.35
	240,000 - 360,000	2.41
	360,000 - 480,000	- 0.43
	480,000 - 600,000	- 0.22
	600,000 - 720,000	—
	720,000 and over	- 0.57

Source: Gasoline Marketing Enquiry Records.



### Determining Rent and Rental Subsidy

One oil company submitted the following calculation to indicate how it determined its rent for a service station and the resulting rental subsidy.

Gasoline Gallonage .....	96,000
Sales ratio, gasoline sales to other sales .....	70/30

Gross Profit	Monthly	Annual
Dealer gross profit — gasoline .....	\$ 570.00	\$ 6,840.00
Dealer gross profit — other sales .....	570.00	6,840.00
Gross profit .....	<u>\$1,140.00</u>	<u>\$13,680.00</u>

Expenses	Monthly	Annual
Heat, light & power .....	\$ 70.00	\$ 840.00
Maintenance .....	20.00	240.00
½ ton truck .....	40.00	480.00
Labor (excluding operator) .....	300.00	3,600.00
Accounting & miscellaneous .....	50.00	600.00
Total .....	<u>480.00</u>	<u>5,760.00</u>
Income required by dealer .....	500.00	6,000.00
Balance available to pay rent .....	160.00	1,920.00
	<u>\$1,140.00</u>	<u>\$13,680.00</u>

Capital cost of Service Station and Equipment	\$70,000.00
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Cost of money invested in Service Station at 8.3% .....	\$5,800.00
Taxes, insurance, maintenance and brand sign .....	1,500.00
Occupancy cost (desire to recover) .....	<u>\$7,300.00</u>
Actual recovery on account of occupancy .....	<u>1,920.00</u>
Annual Rental subsidy .....	<u>\$5,380.00</u>

Annual Rental subsidy	\$5,380.00	= 5.60c per gal.
Annual gallonage	96,000	

Table 23.

## Land Value compared with Building and Equipment Value, Urban Service Stations

Oil Company Estimate of Current Market Value (Land)	% of Total	Oil Company Estimate of Current Market Value (Buildings & Equipment)	% of Total	Total Oil Company Estimate of Current Market Value
\$ 30,000	30%	\$70,000	70%	\$100,000
30,000	40	45,000	60	75,000
45,000	60	30,000	40	75,000
35,000	35	65,000	65	100,000
200,000	80	50,000	20	250,000
45,000	53	40,000	47	85,000
45,000	47	50,000	53	95,000
30,000	40	45,000	60	75,000
35,000	58	30,000	42	65,000
20,000	50	20,000	50	40,000
45,000	50	45,000	50	90,000
60,000	75	20,000	25	80,000
35,000	70	15,000	30	50,000
75,000	60	50,000	40	125,000
50,000	37	85,000	63	135,000
150,000	75	50,000	25	200,000
50,000	51	48,700	49	98,700
7,000	17	35,000	83	42,000
55,000	69	25,000	31	80,000
20,000	43	27,000	57	47,000
20,000	43	26,500	57	46,500
10,000	44	12,800	56	22,800
95,000	76	30,500	24	125,500
20,000	57	15,000	43	35,000
35,000	62	21,300	38	56,300
45,000	53	40,200	47	85,200
50,000	48	55,000	52	105,000
30,000	43	40,000	57	70,000
5,000	16	27,200	84	32,200
15,000	52	13,800	48	28,800
Average Costs				
46,233	55	37,600	45	83,833

Land value averages 55% of total service station value

Source: Gasoline Marketing Enquiry Records.

Table 24.  
Land Costs compared with Land Value, Urban Service Stations

Year Land Acquired	Land Cost	Oil Company Estimate of Current Market Value of Land	Percent Increase
1959	\$ 8,195	\$ 30,000	266%
1959	25,000	30,000	20
1959	40,144	45,000	12
1957	19,161	35,000	83
1955	20,000	45,000	125
1957	23,360	30,000	28
1928	6,500	60,000	823
1930	8,775	35,000	299
1929	29,131	75,000	157
1952	2,417	50,000	1969
1960	15,145	30,000	98
1956	24,779	50,000	102
1929	1,500	35,000	2233
1955	5,115	50,000	878
1935	1,000	30,000	2900
1949	26,406	70,000	165
1935	9,000	75,000	733
1928	46,021	350,000	660
1951	8,000	35,000	338
1944	31,083	45,000	45
1944	3,820	30,000	685
1940	1,399	50,000	3474
1945	2,099	41,000	1853
1940	4,147	40,000	865
1939	3,227	75,000	2224
1929	3,512	35,000	897

Source: Gasoline Marketing Enquiry Records.

In the service station investment:

- (a) the land portion usually appreciates in value
- (b) the buildings and equipment portion depreciates rapidly

The land investment has a continuing value which can be recovered on sale.

The buildings and equipment investment has a temporary value which should be recovered during their useful life.

## CHAPTER 11. PREMISES OCCUPIED BY PRIVATE OWNERS, COMMISSION AGENTS AND EMPLOYEES

### (1) Premises Mortgaged to Oil Company (Owner Financed)

When classifying retail outlets by type of ownership and operation, "owners financed" were classified as being the owners of their retail business premises who have borrowed money from an oil company and granted security by way of mortgage on their business premises.

There are 416 owners financed, being 13.3% of all retail outlets. Owners financed sell 12.6% of the gasoline sold at retail.

Most of the owners financed are outlets classified as "service stations". The gallonage of many of them is in the general vicinity of 100,000 gallons per year. They are usually well located in a community with a potential for greater gallonage.

In the ordinary relationship between mortgage lender and the borrower, the mortgage lender is primarily interested in two basic concerns, namely—

- (a) adequate security so that the lender can enforce repayment of the amount owing if the need arises; and
- (b) a reasonable interest return on the money loaned.

In the oil company "mortgage" these concerns are apparent but appear to be secondary to the prime purpose. The "mortgage" is used as a tool for controlling the marketing of the oil company products. Like the document entitled a "lease" the document entitled a "mortgage" is a multi-purpose contract which has significant clauses dealing with matters other than the security for the monies invested and the repayment of the monies invested. There are clauses in the "mortgage" which give the oil company a large measure of control of the business of the borrower—

- (a) requiring the borrower to sell products supplied by the lender;
- (b) restricting the borrower from selling products that compete with the lender's products; and
- (c) controlling what products the lender may advertise on the premises.

This is illustrated by the following clause extracted from a "mortgage" that one oil company uses in Alberta.

"The mortgagor . . . covenants and agrees with the mortgagee that so long as any monies are outstanding under this mortgage or any extension thereof and in any event for a period up to and including the ..... the lands and premises shall be used primarily for the purpose of a garage and/or service station and insofar as petroleum products are concerned for the sale and handling of and dealing in the petroleum products of the mortgagee as and when the same shall be offered for sale by the mortgagee to the dealer trade and that the mortgagor will purchase from the mortgagee exclusively and no other. All such petroleum products which may be sold or otherwise dealt with on or about the lands and premises herein, paying for such petroleum products the regular dealer prices of the mortgagee at the time of such purchase. In the interpretation of this clause "mortgagee" shall continue to mean (name of oil company) and the provisions hereof shall remain binding on the mortgagor notwithstanding any assignment, transfer, reassignment or other dealing with this mortgage by the mortgagee or its successors."

Once the money has been borrowed, the borrower is unable to pay off the money in advance with a view to being relieved of his obligation to exclusively purchase the products of the lender of the money. This is provided for by the following clause of the mortgage—

"PROVIDED ALWAYS it is hereby agreed that the mortgagor making the payments for principal interest and taxes punctually at the times hereinbefore appointed and observing and performing all the covenants and agreements on his part hereinbefore mentioned shall have the privilege at any time after five years from the date hereof and prior to the maturity of this mortgage of repaying the whole balance of



principal monies hereby secured SAVE AND EXCEPT the final sum of Two Hundred (\$200.00) Dollars on payment of interest down to the date of such repayment without notice or bonus in that behalf; it being understood and agreed that the said final sum of Two Hundred (\$200.00) Dollars of principal money hereunder shall not be paid and need not be accepted by the mortgagee until the ..... A.D. ....;"

Although this document is a "mortgage" it obviously goes much further than the conventional mortgage used by an ordinary investor or lender who simply wants his money back with a reasonable rate of interest. Long after the borrower is ready, willing and able to repay all principal and interest owing he is nevertheless bound by the obligation to exclusively purchase the products of the oil company.

The mortgage is generally reinforced by other contracts which may be entered into between the parties either before or after or at the same time as the taking out of the mortgage. For instance, rather than buying equipment with the monies borrowed, the dealer is usually happy to borrow equipment from the oil company under an "equipment loan agreement" which enables the dealer to get the use of some items of equipment without the necessity of buying it. The "equipment loan agreement" of course contains exclusive buying provisions which are independent of those contained in the land mortgage.

In many cases the "owner financed" reported to the interviewers that the oil company had encouraged him to modernize his premises and had offered to loan him money for this purpose indicating that this would improve his competitive position and probably increase his gallonage.

The mortgage he took extended over a period of 20 or 25 years which was frequently close to the remaining business lifetime of the owner.

After the owner has struggled hard to meet his heavy payments of principal and interest on the mortgage for a few years, he can see little prospect for improvement of his financial situation during the remaining years he has in business. He has no possibility of changing oil company suppliers until the period specified in his mortgage expires. He is in competition with lessees around him whose rent is subsidized and accordingly they have a far lower occupancy charge than the payments of principal and interest he is required to meet. The owner pays the same price for his petroleum products as competitive lessees, but he gets none of the fringe benefits that these lessees receive in the way of subsidized rental and continuous renovation and improvement that the oil companies carry out on their own premises.

At this stage the "owner financed" begins to feel that the only way he can be relieved of his obligations and get any money out for himself is to sell his business.

The oil company by offering an attractive price which gives the owner a capital gain, combined with an offer by the oil company to lease the premises to the operator at a rental substantially less than the principal and interest payments on his mortgage, suggests a solution which has many attractions. It enables the operator to get his money out now while at the same time he can continue in business in the same location as a lessee with a smaller occupancy charge. If the restriction contained in his mortgage on purchase of products has a long time to run, other potential purchasers may not be interested. He feels that the obligation to purchase exclusively from the one oil company would be no more onerous under the proposed lease than it is under his existing mortgage which binds him as far into the future as he cares to look.

Accordingly the borrowing of money from the oil company by way of mortgage leads first to a substantial measure of control of the owners business by the oil company, and ultimately in many cases leads to purchase of the business by the oil company.

## **(2) Premises Owned By Operator (Owner Not Financed)**

When classifying retail gasoline outlets by type of ownership and operation, "owners not financed" were classified as owners of their own retail business premises not mortgaged to an oil company. In Alberta there are 1,285 "owners not

financed" being 40.9% of all retail outlets. Although such outlets are numerous they only sell 17.6% of the total gallonage sold at retail.

A high percentage of these outlets are classified as "other businesses with some gasoline sales" such as an automobile dealer, an implement dealer, a general store, etc.

The gallonage of such outlets averages about one-quarter of the gallonage of the average service station selling the same brand. Usually the owner derives the majority of his income from some other business and he supplements this with his income from gasoline sales.

The gasoline sales are so low that the oil company is usually not interested either in acquiring the outlet, or in providing funds by way of mortgage to improve and modernize it.

The owner will have signed a dealership agreement or franchise agreement requiring him to purchase exclusively the products of one oil company, and there may be some other agreements such as equipment loan agreements or agreements relating to the supply of tires or batteries.

As the volume is not large, the oil company sales representative calls infrequently, perhaps only two to four times per year, and in cases with very low gallonage he may call only upon request.

The oil company has no interest in the premises from which the business is conducted, and the owner experiences a minimum of oil company interference.

The owner bears the entire cost of his own premises, and if he is in a community where there are competitive lessees their rents will be subsidized to the extent of 2c or 3c per gallon which gives them a substantial competitive advantage. The premises owned by oil companies are constantly being renovated and improved at no cost to the lessees, which makes the premises more attractive to the motorist and contributes to an increase in lessee gallonage and the decline in gallonage sold by owners who would have to bear all the cost of their own renovations.

### **(3) Premises Occupied by Commission Agents**

When classifying retail outlets by type of ownership and operation "commission agents" were defined as service station operators who occupy premises belonging to an oil company and who are remunerated by commissions based on their volume of sales.

There were only 13 such outlets being 0.4% of retail outlets.

They are strategically located in the cities of Edmonton and Calgary in such a way that no motorist in those cities is very far away from one.

Like the "lease" or the "mortgage" the "retail commission dealer agreement" is a multi-purpose contract containing various provisions giving the oil company an even larger measure of control of the business than it has in the case of a lessee or a mortgagee. Deliveries of consigned products are in such quantities as the oil company determines. The ownership of all consigned products remains in the oil company until sold by the dealer for the oil company's account. All sales of consigned products by the dealer are at retail prices fixed by the oil company. The dealer is required to keep such records as the oil company may require. The oil company may revise commission rates on any product from time to time.

So far as premises are concerned they are owned by the oil company and the dealer is required to clean and maintain them. No improvements or additions may be made by the dealer to the premises without the written consent of the oil company. The oil company determines where cars may be parked. The oil company may erect and maintain advertising signs and the dealer is required to keep signs illuminated during hours designated by the oil company. The dealer pays the costs of heating, fuel, and telephone.

The dealer, although he is an agent, is required to pay a monthly occupancy charge. The dealer also pays municipal business taxes. The dealer is required to provide staff and a standard of service satisfactory to the oil company and the employees are required to wear uniforms acceptable to the oil company.

In practically every aspect of the conduct of the business, the commission agent has no freedom of choice, but is required to do precisely what the oil company requires.

However, at the end of the contract it is stated that the agent will carry on his business “as an independent contractor in the pursuit of an independent calling and not as an employee or servant of” the oil company.

The premises are owned by the oil company, and controlled by them under this contract. Every significant aspect of the business is subject to the direction or control of the oil company. For all practical purposes the oil company owns and controls the outlet and its operation to the same extent as it would if it operated the outlet with its own employees. However, by the terms of the contract the “agent” agrees that he is not an “employee” but is an “independent contractor” which relieves the oil company of the liabilities it might have if he were in law their “employee or servant”.

Although the commission agent at his own expense is required to invest in tools and miscellaneous equipment not furnished by the oil company and may also have an investment in stock-in-trade purchased from the oil company for re-sale, nevertheless, the contract can be terminated and the commission agent can be out of business on ten days notice.

#### **(4) Premises Occupied by Employees**

When classifying retail outlets by type of ownership and operation, “employees” were classified as service station operators occupying a service station belonging to an oil company, who are employees of the oil company and remunerated by salary.

There are only 10 of such outlets in the province being 0.3% of all outlets.

So far as the premises are concerned they are owned by the oil company and operated by their employees in accordance with their instructions.

Usually such outlets are city outlets, operated as a model of the policies that the oil company would like to see used in all other outlets selling its brand products. Such outlets may be used for the training of new operators, and to experiment with and demonstrate procedures that the company would like other operators to institute.



## CHAPTER 12. PETROLEUM PRODUCTS AND DEALER FRANCHISE AGREEMENT

As a general rule a service station or other retail gasoline outlet handles the brand name products of one oil company only.

It is customary in the gasoline marketing business for the supplier to request the retailer to enter into an agreement known as a Dealership Agreement or a Franchise Agreement. This agreement is more than just a simple agreement to buy products and pay for what is bought. Normally this agreement contains provisions,

- (a) that the dealer will continuously and exclusively purchase the brand name products of the oil company and that he will not deal in petroleum products of any other brand;
- (b) that the company will supply the dealer's entire requirements of gasolines, motor oils, greases, etc.;
- (c) that the term of the agreement will cover a period of several years with automatic renewals for a further term of years.

The refineries in Alberta are owned by four companies which have similar policies in marketing. Where there are a limited number of marketers, and all use exclusive buying contracts, the prospective retailer has to sign such a contract because he has no choice of any other source of supply on different terms.

The result is that each outlet sells the brand name products of one company only, and is usually bound to do so for a term of years. The outlet is accordingly tied to a single supplier. The operator is bound by his contract to buy at the oil company's current posted price in effect from time to time, so he is unable to switch brands if price inducements are offered, and he is unable to take advantage of any opportunity to buy at a lower price that might arise from another source.

In a system where practically every retail outlet is bound by contract ties to purchase exclusively from a particular supplier for a period of years, there isn't any possibility of effective price competition between oil companies in sales to retailers.

There is nothing to be gained by one oil company lowering its price to retail outlets because practically all outlets are bound to purchase exclusively for a term of years from a single oil company, and a reduction in posted dealer price couldn't attract any dealer gasoline volume because all dealers are tied.

The oil company dealership agreement with its service station operator has some similarity to a franchise agreement. However, in a franchise agreement one of the parties usually agrees to handle a product of a certain brand exclusively, in exchange for which he obtains an exclusive territory in which no other person will be granted a franchise for the same product.

In the case of the oil company and the service station operator, the franchise agreement is one sided, in that the operator undertakes to sell the oil company's branded products exclusively, but the oil company does not give him an exclusive territory in return. An example from the Committee's investigations may serve to illustrate the problems that may arise as a result.

An operator who owned his own service station had entered into the usual dealership agreement with an oil company requiring him to buy exclusively the products of that oil company. He had a good location and reasonable volume, and his facilities and staff appeared to be more than adequate to give service to the customers available. On various occasions the oil company representative indicated that the company would be prepared to buy the location, but the owner was unwilling to sell. The oil company also offered to loan money to the operator to modernize or enlarge his station, but he was reluctant to borrow money as he regarded his existing facilities as satisfactory to serve his customers efficiently.



Shortly afterwards the oil company acquired a new station very close to his location on the same arterial road. The service station operator is unable to change to the brand of another oil company because of his dealership agreement which requires him to purchase exclusively for a term of several years the products of the oil company. The available business for the brand of gasoline which he is bound to sell has been effectively cut in half at his location because the volume is shared with the new station. The owner operator's income has been seriously reduced.

The lessee operator of the new station also has inadequate volume to produce a reasonable income but he receives a substantial rental subsidy from the oil company. The oil company will keep the new station open with a succession of lessees and the owner operator who is now making an adequate living will ultimately go bankrupt or sell. His business and his premises have been drastically reduced in value by reason of the drop in volume, and his contract ties with the oil company limit his freedom either to continue in business by selling another brand or to dispose of his premises to a competing oil company. The building of the new station has caused him both an income loss and a capital loss.

It seems clear that oil companies build too many service stations, and although they require their dealers to handle their products exclusively, no exclusive territory is given in return.

Perhaps local governments which desired to avoid the blight resulting from uneconomic service stations, or closed service stations could exercise the power or be granted the power to limit the number of licenses they would issue to outlets selling a particular brand of petroleum products. For instance if a city limited service station licenses to one outlet for each brand for each 10,000 of population (or 12,000 or 15,000), the public could be adequately served and there would be enough volume per outlet that station closures would be reduced and problems arising from uneconomic stations would be minimized. A license of a local government, if based on a minimum population standard would give to the licensed operator protection comparable to a franchise.

## **CHAPTER 13. TIRES, BATTERIES, ACCESSORIES AND OTHER MERCHANDISE**

### **(1) Historical Development of T.B.A. Marketing**

In origin, the prime concern of the oil company was to arrange for the retailing of its refined petroleum products.

However, the service station operator retailing petroleum products found that he could substantially increase his income by using his premises for the retailing of other merchandise as well.

At first the other merchandise was primarily related to the automobile. It consisted of tires, batteries, automobile accessories and automobile repair parts.

The next step was to handle merchandise that was likely to be bought by the motorist, though not directly related to his automobile. This opens a much broader field and includes such items as camping supplies, sporting goods, and a host of other items that a motorist may be tempted to buy while waiting for his car to be serviced.

Just as the service station operator saw an opportunity to supplement his income by retailing other merchandise, the oil companies also saw an opportunity for additional profit by becoming involved in the supply of such merchandise to the service stations which already were buying their petroleum products.

Initially most service station operators handled such other merchandise as they themselves chose and they selected the suppliers from whom they bought. However, to an increasing degree the oil companies now are designating the other merchandise which service stations retailing their brand name petroleum products will handle, are designating the supplier from whom they will be purchased, and are participating in the profit realized from such other merchandise.

Accordingly the merchandise handled by service stations is now purchased in one of three ways, namely:

- (a) from a supplier suggested by the oil company; or
- (b) from the oil company or a company owned or controlled by the oil company; or
- (c) from an independent supplier chosen by the service station operator.

Oil companies strongly influence service station operators in their choice of merchandise to be handled and in their selection of the supplier from whom it will be purchased. The oil companies commonly use two types of arrangements with service stations for this purpose, namely:

- (a) directed buying arrangements; and
- (b) full line forcing arrangements.

Under directed buying arrangements the oil company agrees to sell its petroleum products or to lease its service station on the condition that the dealer purchase designated types of merchandise from a supplier specified by the oil company.

Under full line forcing arrangements, the oil company agrees to sell its petroleum products or to lease its service station on the condition that the dealer will purchase a full line of merchandise designated by the oil company.

The oil companies reinforce such arrangements by other practices. Oil companies use their brand name advertising to educate the motorist to expect that a certain line of merchandise will be available at service stations selling the oil company's brand of petroleum products, which tends to compel the dealer to stock such merchandise. Similarly the oil company permits its credit cards to be used by the motorist to purchase designated brands of merchandise, which again tends to compel the service station operator to stock those brands.

Equipment may be loaned by the oil company to the service station on the condition that it only be used for dispensing designated products. The lease of the premises or a separate advertising agreement may provide that the operator can only advertise or display on the premises items approved by the oil company.

The oil company having influenced what merchandise service stations will

buy, by means of directed buying, full line forcing, brand name advertising, credit cards, and numerous other devices, then profits from the supplying of the designated types of merchandise in one of two ways,

- (a) by market access arrangements with the manufacturer or supplier of the merchandise; or
- (b) by manufacturing the merchandise or by buying the merchandise in large quantities from manufacturers and reselling to its service stations.

A market access agreement is an agreement between the oil company and a manufacturer or supplier of some other merchandise such as tires or batteries, under which the manufacturer or supplier of the other merchandise is given exclusive or preferred access to the "captive" or "fenced in" market consisting of the service stations under the control of the oil company in exchange for a commission or share of the profit on all sales of the merchandise to the service station dealers constituting that market.

In 1966 the Federal Trade Commission of the United States received a report from its staff entitled "Economic Report on the Manufacture and Distribution of Automotive Tires". Pages 36 to 38 of that report dealing with oil companies read as follows:

Service stations are the largest group of tire outlets. Although few individual stations sell very many tires, their large number (211,000 were reported in the 1963 Census) makes them important, and they account for nearly one-fourth of all tires sold. They have the advantage of seeing their customers more frequently than other tire dealers, so they are in a better position to encourage tire sales at the appropriate time. In addition, credit is often already established through credit cards, which lessens delay and other inconveniences which might occur when the buyer is unfamiliar. The service stations themselves receive their tires either through regular wholesale channels or from the oil companies whose gasoline they sell.

In the early 1930's when the major oil companies converted their "filling stations" to automobile "service stations," it was only natural they should include tires in this new concept of merchandising. In many cases the service stations were supplied by tire manufacturers through regular wholesalers, but increasingly they were supplied by the oil companies from which they purchased their gasoline. Figure 8 illustrates the growth of oil company tire sales. From 1 percent of total replacement sales in 1929, their share increased rapidly to almost 25 percent by 1948. Since that time, the share of oil companies has remained almost constant, at about one-fourth of the replacement market.

Most service stations purchase tires through the TBA (tires, batteries, and accessories) programs of their oil companies. There are three principal types of TBA programs for sale of tires; they may be described as private label, purchase and resale, and sales commission.

**Private label sales** account for about one-half of the tires sold through oil companies. Tires are manufactured by one or more tire companies under contract and the oil company accepts complete responsibility for distribution, providing warehousing, advertising, billing, and all other distribution functions. The largest selling private label is Atlas, sold through the various Standard companies (Humble, American, Sohio, California, and others). Other oil companies which sell their own brands include Cities Service, Gulf, Mobil, Phillips, Pure, Tidewater, and Union.

**Purchase and resale** is another type of TBA plan. In this case the oil company acts as a wholesaler of manufacturer branded tires, purchasing tires and reselling them to the stations. Again, the oil company performs all distribution functions, except that it relies on the tire company to provide both national advertising and point of sale materials.

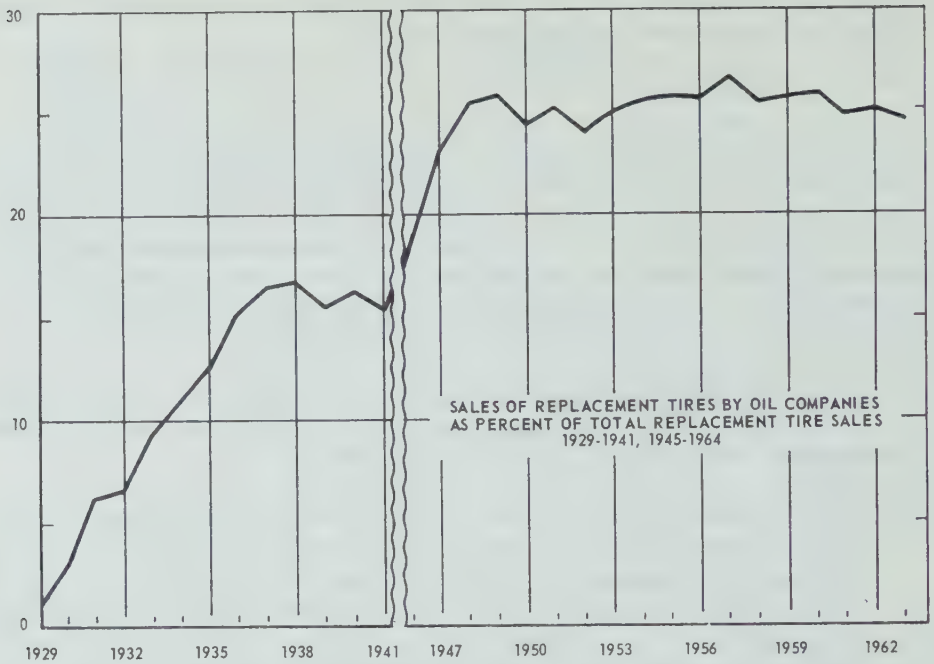
**Sales commission** is a third type of TBA program; sometimes this plan is referred to as an override contract (or market access agreement).

Under this plan the oil company undertakes only the functions of a broker with the tire manufacturer providing all the basic marketing functions of warehousing, billing, and training of personnel in selling its own brands of tires. The individual service stations are designated either franchised dealers or associates of a tire company franchised dealer. The oil company offers the services of its offices and sometimes the joint efforts of its salesmen with those of the tire company. In exchange the oil company receives an override commission of from 5 to 10 percent.

The main difference between the three types of TBA programs is the degree of the distribution functions which are assumed by the oil companies — virtually all in the case of the private label plan, and almost none with the sales commission plan.



PERCENT



Oil companies have adopted TBA programs as a means of increasing their revenues and profits over those obtainable from gasoline sales alone. In promoting TBA, the oil companies have certain unique advantages. They are suppliers of gasoline to a number of small stations under franchise arrangements. In some cases, service station operators own their stations and buy gasoline from the oil companies under contract; in other cases the stations are owned by the oil companies and leased to the operators. Leases between oil companies and dealers generally provide for a 1-year term and can be cancelled if written notice is given in advance of the expiration date. Usually as part of the lease arrangement certain standards of operation such as neatness, hours of operation, services provided, and adherence to other business practices are required. If the station operator fails to maintain required standards, then the oil company may terminate the lease at any time.

In the case of operators who own their stations, contracts with oil companies often provide for loan of equipment and other services, in addition to supply of gasoline. Even though the operator may own his station, his relationship with the oil company is usually close and of importance to him. He benefits from national advertising of the oil company, and enjoys a certain amount of brand loyalty and goodwill related to the name of the oil company with which he deals. Cancellation of a contract with an oil company is, therefore, a serious matter for an operator, whether he leases the station or owns it himself. Besides keeping his contract, it also benefits the station operator to maintain a friendly working relationship with the oil company, since the company can provide him with technical assistance, training, and credit or financial help.

The relationship of the station operator with the oil company, however, is one in which power is centered in the hands of the oil company, often a billion-dollar corporation. While the company does not want to lose a great number of dealers, the loss of any single dealer means little or nothing. To the individual dealer, however, loss of his contract with the oil company can mean serious financial damage. For this reason most dealers want to cooperate with the oil company and maintain a good relationship.

One form which dealer cooperation can take is that of stocking approved tires promoted by oil companies under TBA programs. Although service station operators have the right to stock any brand of tires, they will in most cases stock the recommended brand provided by the TBA program. This does not necessarily mean that the station operators are being forced to obtain tires through oil companies' TBA programs; they may simply find it to their advantage to do so. Even in the absence of any coercion, the oil company has a marked advantage in promoting its brand of TBA tires. The station operator is familiar with the oil company representatives and sees them frequently. Also the recommended brand of tires fits into the general selling framework of the station — customers may expect to find Mobil brand tires at a Mobil station.



(2) Operators complained:

- (a) that they were not free to purchase merchandise their customers wanted because of oil company contracts restricting what merchandise the operator was permitted to handle;
- (b) that oil company contracts restricted the operator to buying from the oil company or a supplier designated by the oil company;
- (c) that the supplier who had the exclusive right to sell to the operator did not offer service that was as good, or comparable quality, or as cheap a price because the operator was not free to take advantage of competitive sources;
- (d) that their profit on merchandise was not as great as it could have been if the operator was free to buy from sources where better service, quality or price were offered;
- (e) that they might lose their leases or their service station businesses if they bought from a source other than their oil company or the supplier suggested by their oil company;
- (f) that they were not free to stock alternate brands of merchandise to give customers a choice or which might result in more profitable business for the operator, due to oil company objections and risk of threatened penalties.

The Committee accordingly had to consider such matters as:

- (a) how large is the T.B.A. business?
- (b) what impact does T.B.A. business have on dealer profits?
- (c) how widespread and effective are contract ties directing or restricting buying by dealers?
- (d) how are independent suppliers of T.B.A. affected by oil company policies of directing the buying of service station operators?
- (e) do oil companies profit on T.B.A.?
- (f) do dealers share in the profits or benefit in lower prices from the oil company practice of restricting market access?
- (g) is the system of marketing in the best interests of the public?

(3) Size of the T.B.A. Market

T.B.A. is the second largest item of sales volume for service stations in all parts of the United States.

Gasoline accounts for a U.S. average of 76.1% of service station sales and T.B.A. accounts for an average of 10.2% of service station sales.

In various marketing regions of the United States average T.B.A. sales per station range from an average low of \$9,000 in one region to an average high of \$14,600 in another region, the average T.B.A. sales per station throughout the United States being \$12,544.00. This is a range of from 7.8% of sales to 11.4% of sales with a U.S. average of 10.2% of sales.

Items Sold	Percentage of Sales (U.S. Average)
Gasoline .....	76.1%
T.B.A. ....	10.2%
Lubes .....	4.6%
Other merchandise .....	4.9%
Labor .....	4.2%
	<hr/> 100%

In some regions T.B.A. comes close to matching combined sales of lubes, other merchandise, and labor. In most regions the percentage of sales from T.B.A. exceeds sales from any two of the other income sources.

In the United States the average T.B.A. outlay per vehicle was \$92.64.

### Average T.B.A. Per Station — U.S., 1963

Number of stations with payrolls reporting T.B.A. sales .....	95,390
Total T.B.A. sales from stations with payrolls .....	\$1,196,598,000
Average T.B.A. per station .....	\$12,544

### Average T.B.A. Per Vehicle — U.S., 1963

Projected T.B.A. sales .....	\$7,626,340,000
Number of registered vehicles .....	82,326,000
Average T.B.A. spending per vehicle .....	\$92.64

Source: National Petroleum News, Fact Book, Mid-May, 1966.

The financial statements of numerous service stations in Alberta examined by Gasoline Marketing Enquiry interviewers when summarized produced averages very similar to the U.S. averages.

Table 25.

### Percentage of Sales by Outlets, Classified by Type of Business Opportunity (Alberta, 1965)

Item Sold	Urban Neighborhood	Urban Highway	Highway Service
Gasoline .....	70%	72%	84%
T.B.A. ....	16%	15%	8%
Lubes .....	5%	4%	3%
Repair & Labor .....	9%	9%	5%
	100%	100%	100%

Source: Gasoline Marketing Enquiry Records.

### Oil companies have entered the business of selling T.B.A. and other merchandise to service stations.

There are 11 oil companies which market petroleum products through chains of service stations in Alberta. All 11 are engaged in the business of other merchandise.

Merchandise Marketed	No. of oil companies which sell merchandise or grant market Access Agreements.	No. of oil companies which do not sell merchandise, and do not grant market Access Agreements.
Tires .....	11	0
Batteries .....	11	0
Anti Freeze .....	10	1
Accessories .....	11	0

### Number of Oil Companies in Alberta which:—

Merchandise Marketed	Sell Only	Grant Market Access Only	Both Sell & Grant Market Access	Total
Tires .....	4	5	2	11
Batteries .....	5	4	2	11
Anti Freeze .....	10	0	0	10
Accessories .....	5	2	4	11

Oil companies sell to Service Stations many items of merchandise other than petroleum products. The oil companies listed the products they sell which include:

**Products Sold Through Retail Outlets  
Alberta, 1965**

**Tires**

Passenger Car  
Tractor & Implements  
Trailer & Scooter  
Truck  
Tire Repair Equipment

**Batteries**

Batteries  
Cables  
Equipment  
Flash Light Batteries

**Accessories**

Car Mats  
Flashlights, Lamps, Batteries  
Litter Baskets  
Mirrors  
Seat Belts  
Car Blankets  
Exhaust Systems  
Fender-Flaps—Skirts  
Gauges  
Head Rests  
Hub Caps  
Jacks  
Roof Racks  
Seat Covers

**Auto Parts**

Cooling System Parts  
Heating System Parts  
Spark Plugs  
Ignition Parts  
Filters  
Shocks  
Bulbs & Headlamps  
Others—Gas Tank Caps,  
Oil Caps, Seals,  
Flashers, Frost  
Shields, Wipers  
Brake Shoes

**Home Products**

Snow Scrapers  
Garbage Cans  
Brooms  
Garden Tools  
Hats  
Hockey Sticks  
Ladders  
Mops  
Paint & Supplies  
Glasses (Sun)  
Tools

**Miscellaneous Merchandise**

Numerous Items

Source: Questionnaire 12, Question 54(b).

**(4) T.B.A. and Dealer Profit**

The ratio of gasoline sales to the sales of other merchandise and services has a very important effect on whether a service station is profitable or not. In general these ratios vary with type of location.

1. A highway location usually affords least opportunity to sell merchandise and services other than gasoline. In a highway location the ratio of gasoline sales to other would commonly be 90% gasoline to 10% other merchandise and services.
2. An urban station open 24 hours, or a station with mixed highway and urban traffic may commonly experience about a 75/25 ratio of gasoline sales to sales of other merchandise and services.
3. An urban station on a major traffic artery could have a sales ratio of about 70/30.
4. The neighborhood station has the greatest opportunity to sell other merchandise and typically gasoline could represent 65% of sales to 35% of other merchandise and services.

Tables 26, 27, 28, 29 and 30 are sample calculations done by oil companies showing the substantial increase in the earnings of a service station operator resulting from small increases in the ratio of sales of T.B.A. and other merchandise and services to total sales. For each 5% increase in the T.B.A. sales ratio there is a significant increase in the Dealer's Net Earnings. It is to be noted in the calculations that all sales of merchandise and services other than gasoline are included as T.B.A., including repair labor which may be sold at 100% mark-up.

Table 26.  
Earnings Increase as T.B.A. Sales Ratio Increases

% of T.B.A. Sales to Total Sales .....	25%	30%	35%
Dealer Net Earnings .....	\$6,300	\$7,200	\$8,300
<b>Average Income for Lessee — Company Owned Service Station</b>			
Gasoline Gallonage .....	150,000	150,000	150,000
Sales Ratio .....	65/35	70/30	75/25
Sales Revenue:			
Gasoline .....	60,000	60,000	60,000
Other Mdse. & Service .....	32,300	25,700	20,000
	<u>\$92,300</u>	<u>\$85,700</u>	<u>\$80,000</u>
Gross Profit:			
Gasoline .....	10,300	10,300	10,300
Other Mdse. & Service .....	14,500	11,600	9,000
	<u>\$24,800</u>	<u>\$21,900</u>	<u>\$19,300</u>
Operating Expenses:			
Wages .....	10,000	8,800	7,700
Rent .....	2,800	2,600	2,400
Other .....	3,700	3,300	2,900
	<u>\$16,500</u>	<u>\$14,700</u>	<u>\$13,000</u>
Net Earnings before Dealer Drawings .....	\$ 8,300	\$ 7,200	\$ 6,300
Note: With current (Dec./66) dealer margins, the average income could rise to: .....	\$11,600	\$ 9,850	\$ 8,700

Increases in the sales ratios of T.B.A. and other merchandise from 25% to 30% to 35% appreciably increase the net earnings of the dealer. Note: In these sales ratios all sales of merchandise and services other than gasoline are included as T.B.A., including repair labor which may be sold at 100% mark-up.

Source: Gasoline Marketing Enquiry Records.

Table 27.  
Earnings Increase as T.B.A. Sales Ratio Increases

% of T.B.A. Sales to Total Sales .....	25%	30%	35%
Dealer Net Earnings .....	\$8,520	\$9,700	\$11,040
<b>Average Income for Lessee — Company Owned Service Station</b>			
Gasoline Gallonage .....	250,000	250,000	250,000
Sales Ratio .....	65/35	70/30	75/25
Sales Revenue:			
Gasoline .....	100,000	100,000	100,000
Other Mdse. & Service .....	53,850	42,850	33,330
	<u>\$153,850</u>	<u>\$142,850</u>	<u>\$133,330</u>
Gross Profit:			
Gasoline .....	17,100	17,100	17,100
Other Mdse. & Service .....	24,200	19,300	15,000
	<u>\$ 41,300</u>	<u>\$ 36,400</u>	<u>\$ 32,100</u>
Operating Expenses:			
Wages .....	17,500	15,500	13,600
Rent .....	5,360	4,700	4,180
Other .....	7,400	6,500	5,800
	<u>\$ 30,260</u>	<u>\$ 26,700</u>	<u>\$ 23,580</u>
Net earnings before dealer drawings .....	\$ 11,040	\$ 9,700	\$ 8,520
Note: With current (Dec./66) dealer margins, the average income could rise to: .....	\$ 16,870	\$ 14,830	\$ 13,130

Increases in the sales ratios of T.B.A. and other merchandise from 25% to 30% to 35% appreciably increase the net earnings of the dealer. Note: In these sales ratios all sales of merchandise and services other than gasoline are included as T.B.A., including repair labor which may be sold at 100% mark-up.

Source: Gasoline Marketing Enquiry Records.



Table 28.

## Earnings Increase as T.B.A. Sales Ratio Increases

% of T.B.A. Sales to Total Sales .....	15%
(All merchandise and services other than gasoline are included as T.B.A.)	
Net profit .....	\$6,900
% of profit on total sales .....	9.4%

## Projected Profit and Loss Statement for a Typical "Highway" Service Station

## Gasoline Gallonage — 150,000

	Annual Sales	% of Total Sales
Gasoline Sales (Current Prices assumed: Premium 44.9 and Regular 39.9c per gallon) .....	\$62,400	85.0%
Motor Oils .....	2,200	3.0
Tires, Batteries, Parts & Accessories .....	5,100	7.0
Lubrication .....	700	1.0
Labour & Service .....	3,000	4.0
<b>TOTAL SALES</b> .....	<u>\$73,400</u>	<u>100.0%</u>
<b>GROSS PROFIT</b> (Sales less cost of products sold — See Notes No. 1 and No. 2) .....	\$15,400	21.0%
<b>Less: Operating Expenses:</b>		
Employee Payroll (excludes Lessee or Dealer) (See Note No. 3) .....	\$ 3,000	4.1
Occupancy Costs (Rent or Depreciation and Taxes) .....	2,200	3.0
Other Expenses (Only applicable business expenditures) .....	3,300	4.5
<b>TOTAL OPERATING EXPENSES</b> .....	<u>\$ 8,500</u>	<u>11.6</u>
<b>NET PROFIT</b> (See Note No. 4) .....	<u>\$ 6,900</u>	<u>9.4%</u>

NOTES: #1 This level of gross profit is based on present prices and margins. If the generally prevalent 8.1c per gallon margin on gasoline changes, a corresponding change in gross and net profits will occur.

#2 Effective stock control is essential for a dealer to make this level of gross profit. Hence our concern that dealers maintain proper inventory control.

#3 The Employee Payroll at "Highway" outlets is lower than at other locations as the lessee or dealer will require less assistance to provide service to predominantly gasoline customers.

#4 The "family" income at "highway" outlets is frequently supplemented by revenue from a related business such as a restaurant or bulk fuel outlet.

Source: Gasoline Marketing Enquiry Records.

Table 29.

## Earnings Increase as T.B.A. Sales Ratio Increases

% of T.B.A. Sales to Total Sales .....	30%
(All merchandise and services other than gasoline are included as T.B.A.) .....	
Net profit .....	\$9,500
% of profit on total sales .....	10.75%

**Projected Profit and Loss Statement for a Typical "Neighborhood" City Service Station**  
**Gasoline Gallonage — 150,000**

	Annual Sales	% of Total Sales
Gasoline Sales (Current Prices assumed: Premium 44.9 and Regular 39.9c per gallon) .....	\$62,400	70.0%
Motor Oils .....	4,500	5.0
Tires, Batteries, Parts & Accessories .....	14,300	16.0
Lubrication .....	1,800	2.0
Labour & Service .....	6,200	7.0
<b>TOTAL SALES</b> .....	<u>\$89,200</u>	<u>100.0%</u>
<b>GROSS PROFIT</b> (Sales less cost of products sold — See Notes No. 1 and No. 2) .....	\$25,800	29.0%
Less: Operating Expenses:		
Employee Payroll (excludes lessee or dealer) .....	\$ 9,400	10.5
Occupancy Costs (Rent or Depreciation and Taxes) .....	3,350	3.75
Other Expenses (only applicable business expenditures) .....	3,550	4.0
<b>TOTAL OPERATING EXPENSES</b> .....	<u>\$16,300</u>	<u>18.25</u>
<b>NET PROFIT</b> .....	<u>\$ 9,500</u>	<u>10.75%</u>

NOTES: #1 This level of gross profit is based on present prices and margins. If the generally prevalent 8.1c per gallon margin on gasoline changes, a corresponding change in gross and net profits will occur.

#2 Effective stock control is essential for a dealer to make this level of gross profit. Hence our concern that dealers maintain proper inventory control.

Source: Gasoline Marketing Enquiry Records.

Table 30.

**Earnings Increase as T.B.A. Sales Ratio Increases**

This statement shows a "small town" station with only half the gasoline gallonage, 75,000 gallons, but where T.B.A. constitutes 50% of total sales. This station enjoys a higher net profit than the station with 150,000 gallons where T.B.A. amounted only to 15% of total sales. The operator's percentage of profit on total sales, 11.75%, exceeds the percentage of profit enjoyed by either of the stations with double the gasoline volume but where the percentage of T.B.A. sales to total sales was smaller.

**Projected Profit and Loss Statement for a Typical "Small Town" Service-Oriented Service Station****Gasoline Gallonage — 75,000**

	Annual Sales	% of Total Sales
Gasoline Sales (Current Prices assumed: Premium 44.9 and Regular 39.9c per gallon) .....	\$31,200	50.0%
Motor Oils .....	3,700	6.0
Tires, Batteries, Parts & Accessories .....	18,700	30.0
Lubrication .....	1,900	3.0
Labour & Service .....	6,900	11.0
<b>TOTAL SALES</b> .....	<b>\$62,400</b>	<b>100.0%</b>
<b>GROSS PROFIT</b> (Sales less Cost of Product Sold — See Notes No. 1 and No. 2) .....	<b>\$21,800</b>	<b>35.0%</b>
Less: Operating Expenses:		
Employee Payroll (excluding lessee or dealer) .....	\$ 8,700	14.0
Occupancy Costs (Rent or Depreciation and Taxes) .....	2,350	3.75
(See Note No. 3)		
Other Expenses (Only applicable business expenditures) .....	3,450	5.5
<b>TOTAL OPERATING EXPENSES</b> .....	<b>\$14,500</b>	<b>23.25</b>
<b>NET PROFIT</b> .....	<b>\$ 7,300</b>	<b>11.75%</b>

NOTES: #1 This level of gross profit is based on present prices and margins. If the generally prevalent 8.1c per gallon margin on gasoline changes, a corresponding change in gross and net profits will occur.

#2 Effective stock control is essential for a dealer to make this level of gross profit. Hence our concern that dealers maintain proper inventory control.

#3 Occupancy costs could be somewhat more depending upon the type of building (the depreciation) and the municipal tax rate.

Source: Gasoline Marketing Enquiry Records.

One of the major oil companies publishes "Service Station Guides" to assist its dealers. The following table which was published in these "guides" similarly indicates the increase in the dealer's profit resulting from an increase in the ratio of the dealer's T.B.A. sales. Expressed as a percentage of total net sales, gross profits and wages both increase as the percentage of T.B.A. increases and the percentage of gasoline declines.

% Gasoline Sales	% T.B.A. Sales	% Gross Profit	% Wages*
90	10	18	8
80	20	23	10
70	30	27	12
60	40	30	13
50	50	33	14

\*Includes wages for the dealer for time spent on other than management functions.

For this reason many service station operators consider it is important that their "other merchandise" should be purchased under competitive conditions as to both price and service.

In answer to our Committee questionnaires many service station operators indicated that they considered they were paying higher prices and getting poorer service in the supply of other merchandise because they were required to purchase from their oil company or from a supplier suggested by their oil company. The

operator because of his contract was not free to purchase from another supplier offering better service or cheaper prices. The vendor knowing of the restrictions on the operator, has less incentive to give comparable service or price, because even if he doesn't equal what others offer, the operator is tied and the vendor runs no risk of losing the operator's business.

Anything which restricts the freedom of an operator in his merchandising of T.B.A. could have a significant effect on the operator's opportunity for profit.

#### **(5) T.B.A. Contract Ties & Effectiveness**

The restrictive web of contracts and ties binding the operator applies to T.B.A. and other merchandise as well as to gasoline.

There may be a contract for T.B.A. products which provides that the operator will actively engage in the sale and distribution of the oil company's brand of T.B.A. products and will purchase from the oil company and keep on hand at all times a reasonable stock of the oil company's T.B.A. products, and will use his best efforts to sell and promote the oil company's brand of T.B.A. products.

In the service station lease there may be a covenant that the operator will execute the oil company's T.B.A. products agreement or its equipment loan agreement or its consigned stock agreement, etc. Usually a breach of the terms of any of these agreements constitutes a breach of the terms of the lease. However, these agreements are separate agreements which do not necessarily terminate with the termination of the lease.

The lease may provide that the premises will be used only for purposes authorized by the oil company or for the sale of products approved by the oil company.

The oil company may provide the dealer with equipment under an equipment loan agreement which may contain a clause that the dealer "will continuously and exclusively . . . purchase, sell, advertise, trade and deal in the particular kinds, grades and brands of products marketed by the company to the retail dealer trade generally". The equipment loan agreement may contain a clause that the equipment will be used exclusively for the handling of products purchased from the oil company.

The oil company may provide the dealer with signs by way of loan, lease, or other agreement, which usually contains a clause that the operator will use the sign "exclusively and continuously in the advertising of the products sold by" the oil company.

If the operator has borrowed money from the oil company his loan agreement may provide that he

" . . . will purchase or cause to be purchased directly from the company, and from no other, any products (including but not limited to tires, tubes, tire accessories, batteries and auto accessories) in addition to petroleum products and anti-freeze compounds which are saleable on the garage premises and which may, from time to time, be offered for sale or distributed by the company, and also during the said term, the owner will not purchase, receive, sell, offer to sell, deal in, handle, keep in stock or dispose of either directly or indirectly . . . any petroleum products or other merchandise and products . . . except such as shall have been manufactured or distributed by or purchased from the company, the intention being that as to all such products and merchandise, the owner shall purchase the same directly from the company exclusively and from no other person, firm or corporation whatsoever."

If the operator purchases equipment under a conditional sale agreement from the oil company, the contract may contain a provision that the purchaser " . . . will purchase from the company exclusively . . . all products generally required" for the carrying on of his business. Such a contract may also provide that the equipment will be used " . . . exclusively for the vending of the company's products . . . ", and that the dealer will not "deal in or handle any products purchased from any other person, firm or corporation". In his agreement relating to his credit card imprinter, the dealer may agree to use it " . . . solely, exclusively and continuously in reporting credit sales of the products sold (by the oil company) and for no other purpose".



Four of the eleven oil companies marketing in Alberta advised that apart from formal written contracts, they had an understanding or verbal contract with their dealers that the dealers would handle the products sold by the oil company or the products suggested by the oil company.

The number of contracts or ties applicable to any particular service station varies from station to station, and varies with the type of operation of the station.

Generally lessee operated stations are subject to the most effective ties and the maximum number of ties. The owner financed (who has borrowed money from the oil company) is not quite as effectively tied as the lessee, because so long as he repays his borrowings as they fall due, the owner financed is not in danger of losing his business premises like the lessee is. The least effectively tied outlet is the owner not financed. He is neither in danger of losing his premises, nor of receiving a demand for repayment of monies borrowed. The owner not financed may still have signed several contracts, but he is less apprehensive about penalties for non-performance than the more vulnerable operators such as the lessee and the owner financed.

Many service station operators view quick termination clauses as an element of coercion. 98% of the Alberta service station lessees who answered indicated that their dealership agreement could be cancelled on notice of thirty days or less. Only 2% of those giving a reply indicated that their cancellation notice had to be given for a period of greater than thirty days.

Through these many devices, the oil company is able to exercise a considerable amount of pressure on the service station operator as to what types and brands of merchandise he will buy.

In Chapter IV of the Restrictive Trade Practices Commission report the policies of the oil companies on enforcement is dealt with at some length. The report states

"It is apparent from the evidence in the enquiry that the degree to which policies of full line forcing and directed buying shape exclusive buying by individual service station operators does not necessarily depend on the provisions contained in the formal agreements between the oil company and its dealer, but that the methods of direction or persuasion used by the representatives of the oil companies in dealing with service station operators play a very large part." (p. 40)

Several of the companies reported that they relied on salesmanship rather than coercion. Companies stated they "persuaded" or "recommended" but did not "require" or "compel".

One company which recommends "to the service station operator the products of designated suppliers" advised the Commission that:

". . . lessee dealers who verbally agree with the company to enter into arrangements with certain of the suppliers . . . are if necessary reminded of their verbal arrangements; with respect to mortgaged service stations the company designates in writing the names of suppliers from whom T.B.A. products are to be purchased under the terms of the agreement and if necessary, the specific clauses in the agreement dealing with such products are brought to the attention of the operator from time to time by means of a letter. Should the mortgage account fail to make such purchases, payment of the mortgage in full may be demanded and in default of such payment proceedings for foreclosure and/or sale are taken."

Another company stated:

"It is the policy of the company to require lessee dealers at outlets owned or leased by the company, to purchase the company's products and products designated by the company. It is the policy of the company to require, by contract, operators who have received financial assistance from the company by way of mortgage to purchase the company's products and products designated by it. It is the policy of the company to require outlets using dispensing or other equipment owned by the company to use such equipment only for the sale of products purchased from the company or designated by it." (p. 46)

"With specific reference to tires and batteries, at leased accounts operated by lessee dealers, and very occasionally at mortgaged accounts, the company has told dealers that failure to purchase designated products could result in:

- (a) withdrawal of credit card privileges on the sale of those products;
- (b) an increase in rent to compensate for loss of revenue; or
- (c) a request for a higher interest rate which would of course have to be negotiated in the case of mortgage accounts." (p. 47)

The Restrictive Trade Practices Commission asked questions as to whether the operator believed that he could buy comparable products at a better price if he had completely free choice of wholesale suppliers and whether he had ever lost sales because of delivery time or slow service. The Report at pages 85 and 86 summarized the replies as follows:

"Sixty-three of the 106 lessee dealers and financially assisted operators indicated some measure of direction by the oil company in their purchases of T.B.A. products. The dealers regarded such direction as arising out of the terms of their agreements with suppliers, from requests or suggestions by oil company representatives and extending to, at the other extreme, action by oil company representatives to have competing products and advertising of competitive products removed from the station and implications that rent would be increased or lease withdrawn if the dealer did not co-operate. The following are among the comments made in the replies to the questionnaire:

- (1) "Will not let us leave signs up for any other products beside their own."
- (2) "I have been told by Oil Co. Rep. we must not display competitive merchandise in our station."
- (3) "Suggested to remove competitive lines from display area, or else. The 'or else' could be anything, but they have many methods."
- (4) "Sales representative of oil company have (sic) suggested removing certain merchandise from display."
- (5) "1. Was ordered to remove Bardahl display from Pump Island.  
2. Ordered to remove Prestone Advertising.  
3. Have been strongly advised on several occasions by . . . oil representatives to handle only (designated) fan belts."
- (6) "We were threatened by a rental increase if oil Co. T.B.A. products were not purchased."
- (7) " Pressured to buy their products or pay higher rental."
- (8) "(Oil company's) local manager . . . has instructed me that all the products that they sell I must purchase from (oil company) and no competitive product will be allowed in this service station or my lease will be cancelled."
- (9) "At this particular outlet no real pressure lately. Plenty of sales effort, with mild threats of a rent raise if purchases are not made from them."
- (10) "Verbal indications that rental could be increased if a volume of purchases from (specified supplier) was not made."
- (11) "Suggestions that lack of co-operation could have direct bearing on amount of rent. Suggested on occasion that some products and advertising be removed from shelves and windows."
- (12) "(Oil Company) insists we buy only from (specified supplier) . . . sales representative insists that we display only products that are listed on their approved list."
- (13) "Warned to buy at their choice of jobber or lose lease."

In some cases dealers, who indicated that they considered that they were restricted in their sources of supply for T.B.A. products because of their supplier's insistence that they purchase as directed, expressed the opinion that they could secure better service and buy to better advantage if they were not so restricted."

In various cases before Courts in the United States orders have been granted prohibiting oil companies from coercing their dealers to purchase a particular brand of T.B.A.

In *The Matter of Goodyear Tire and Rubber Company* (docket No. 6486), the issue was the legality of a sales commission plan for distributing Goodyear tires through Atlantic service stations. The FTC charged a violation of section 5 of the Federal Trade Commission Act, which prohibits unfair methods of competition in commerce. Specifically, the FTC charged that Atlantic's distributors, although ostensibly independent, were actually under the domination and control of Atlantic and that the sales commission contract with Goodyear restrained competition in the sales of TBA. Competing tire companies were alleged to have been substantially precluded from selling tires at Atlantic service stations assigned to Goodyear.<sup>10</sup>

Atlantic had introduced the sales commission plan in 1951. Previously it had merchandised tires under the purchase-resale plan, the tires being purchased from Lee Tire and resold to individual stations. Atlantic became increasingly dissatisfied with the purchase-resale plan. It asserted that outside of the Philadelphia area the ready availability of Lee tires diminished, and that its own warehouses were unsuited for handling tires and other accessories.

In 1948 and 1949, Atlantic conducted a survey of its dealers to determine which brand of tire they preferred to handle. Sixty-seven percent of the dealers interviewed indicated a preference for Lee tires. Only 11 percent preferred Goodyear tires, and 4 percent, Firestone. A majority preferred to buy their TBA from more than one source because of price advantage and variety of brands.

To initiate the new sales commission plan, Atlantic gave Goodyear and Firestone the names of its dealers, who were then visited by Atlantic salesmen accompanied by Goodyear or Firestone representatives. The salesmen convinced many dealers of the advantages of handling the new lines of tires and supervised installation of advertising displays. Names of dealers who were not convinced were recorded and submitted to Atlantic headquarters.

Within 9 months after Atlantic adopted the new sales commission arrangement, Lee Tire concluded that 75 percent of Atlantic's tire business would be lost that year, despite vigorous efforts on the part of Lee to retain the business. This had occurred despite the previously expressed preference of dealers for handling Lee tires.

Atlantic asserted that its promotion of a line of TBA was legal in the absence of overt coercion. Although Atlantic had stated to its own dealers that they could accept or reject the new TBA program as a matter of choice, several ex-Atlantic dealers who testified in support of the complaint recounted instances in which expressed or implied threats of lease cancellations were made. The Commission found that ample evidence of overt coercion existed. However, it regarded these overt acts of coercion as mere symptoms of a more fundamental restraint of trade inherent in the sales commission plan itself.

The Commission decided against the defendants, Goodyear and Atlantic Refining. Its order prohibited Atlantic from coercing its dealers and distributors to purchase a particular brand of TBA and also forbade Atlantic's participation in any sales commission plan for the distribution of TBA. Also, the order prohibited Goodyear from using the sales commission plan with any other oil company for marketing its TBA.

The defendants appealed the decision of the Commission to the U.S. Court of Appeals, which decided in favor of the FTC.<sup>11</sup> The two defendants made separate appeals to the U.S. Supreme Court.<sup>12</sup> The Court found in favor of the Federal Trade Commission and directed that the order of the Commission be carried out.

The main issue in the Atlantic-Goodyear case was the legality of the sales commission plan and its effect on competition in the supply of TBA. It is evident, particularly in the case of Atlantic Refining, that other tire companies were excluded to a substantial degree from supplying the stations involved. Atlantic, by the adoption of the new TBA plan, was able to virtually eliminate Lee as a supplier of tires to its stations.

<sup>10</sup> Actually Atlantic had split its territory into two parts, one of which was assigned to Goodyear and the other to Firestone.

<sup>11</sup> *Goodyear Tire and Rubber Co. v. Federal Trade Commission*, 331, F. 2d 394 (7th Cir. 1964).

<sup>12</sup> *Atlantic Refining Co. v. Federal Trade Commission*, *Goodyear Tire & Rubber Co. v. Federal Trade Commission*, 381 U.S. 357.



In its 1962 Report the Canadian Restrictive Trade Practices Commission found that the practice of trading exclusively in the products produced distributed or sponsored by the supplying oil company was more pronounced when there was a lessee-lessor relationship between the distributor and the dealer than when the dealer owned his own premises. For financially assisted dealers, the general trend was to more exclusivity than with those dealers who owned their stations, but less complete than with lessee operators. It found that the extensive use of credit cards and the confinement of these to specific lines of goods were important considerations in tying purchases to the oil company.

The Gasoline Marketing Enquiry Committee in Alberta also found that the effectiveness of oil company "suggestions" as to what merchandise their dealers should buy is clearly related to the type of operation of the station and how extensively the dealer is tied. Whether the ties are set out in contracts where they are obvious, or are understandings evidenced by the behavior and statements of oil company representatives exercising "persuasion" or making "recommendations" the results are uniformly and remarkably effective in influencing dealers.

In the case of every item of merchandise a high percentage of lessees follow oil company "suggestions", a lesser percentage of dealers financed do so, and owners not financed are least likely to purchase "suggested" merchandise. Owners not financed exercise the greatest freedom in purchasing merchandise which competes in quality, service or price although it is not sold by the oil company or "suggested" by it. The data on the following charts was compiled from oil company replies.

Table 31.

**Percent of Outlets Which Purchased From Oil Companies or Suggested Suppliers:  
Tires and Tubes**

Brand	Operated by Lessees	Operated by Owners Financed	Operated by Owners Not Financed
"Cartel" brand .....	96	68	45
"Other" brand .....	75	54	51
Off brand .....	97	40	28
Weighted average .....	<u>94%</u>	<u>67%</u>	<u>44%</u>

**Batteries**

"Cartel" brand .....	92	52	31
"Other" brand .....	53	23	18
Off brand .....	97	40	30
Weighted average .....	<u>88%</u>	<u>51%</u>	<u>31%</u>

**Anti-Freeze**

"Cartel" brand .....	79	48	32
"Other" brand .....	55	50	30
Off brand .....	97	40	34
Weighted average .....	<u>78%</u>	<u>48%</u>	<u>31%</u>

**Accessories and Other Products**

"Cartel" brand .....	93	62	36
"Other" brand .....	5	10	10
Off brand .....	97	100	43
Weighted average .....	<u>84%</u>	<u>60%</u>	<u>35%</u>

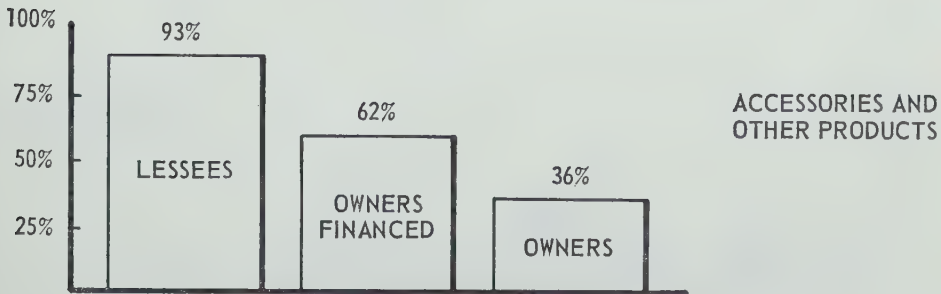
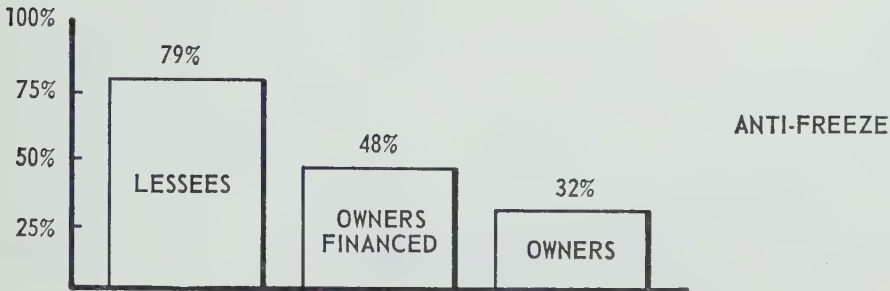
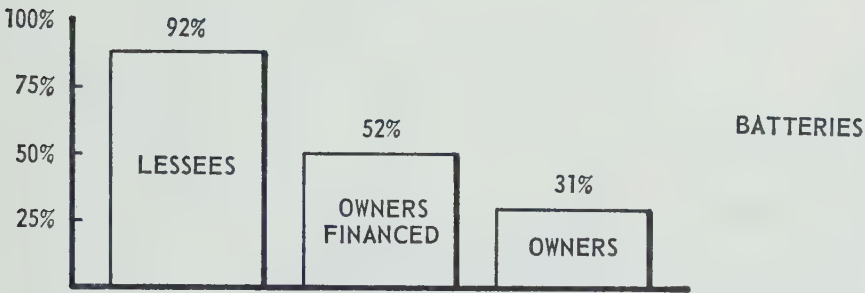
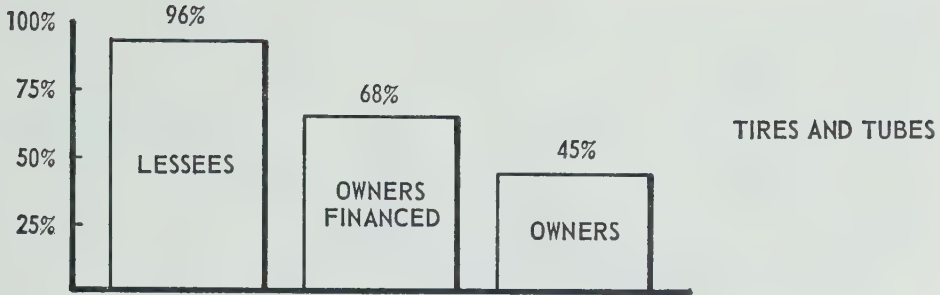
Source: Gasoline Marketing Enquiry Records.



CHART 26

# "CARTEL" BRAND RETAIL OUTLETS

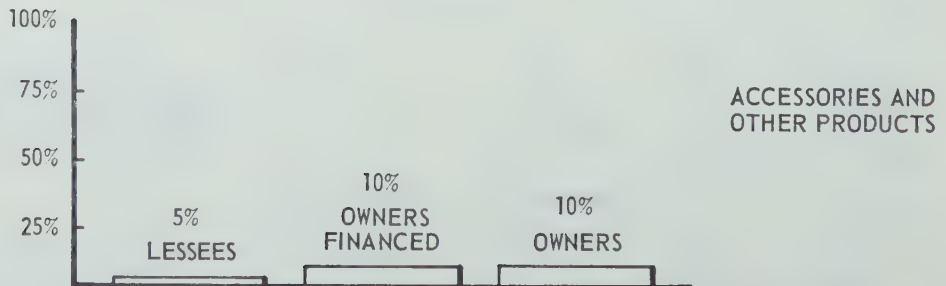
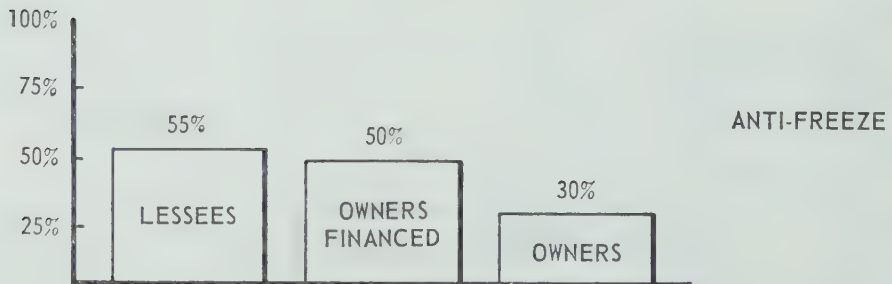
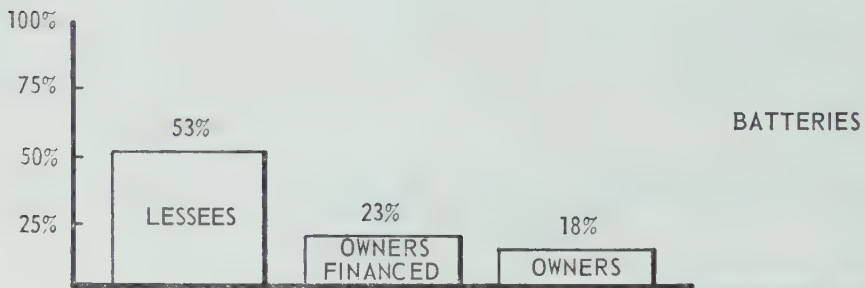
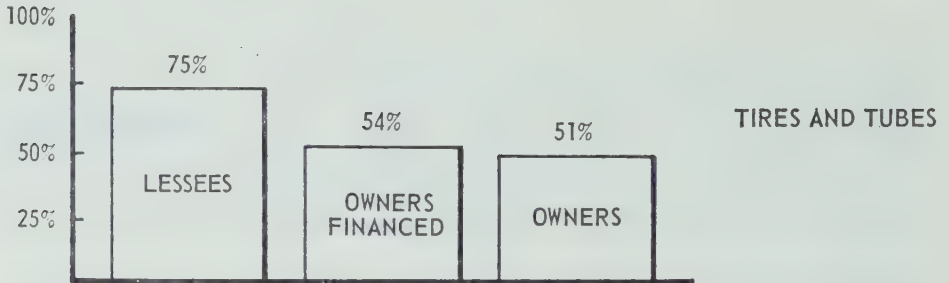
PERCENT WHICH PURCHASE FROM OIL COMPANY OR  
SUGGESTED SUPPLIER - ALBERTA 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

# "OTHER" BRAND RETAIL OUTLETS

PERCENT WHICH PURCHASE FROM OIL COMPANY OR  
SUGGESTED SUPPLIER - ALBERTA 1965

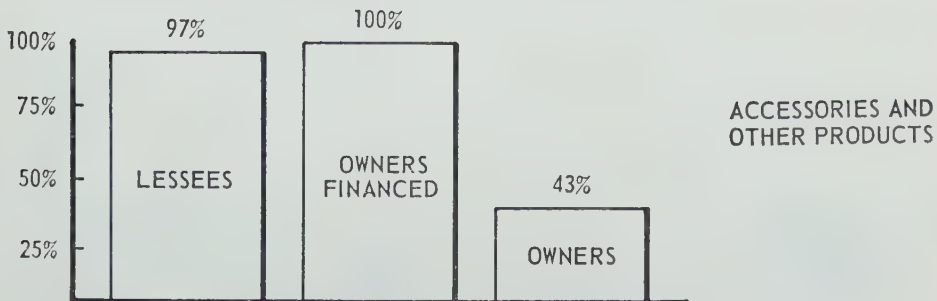
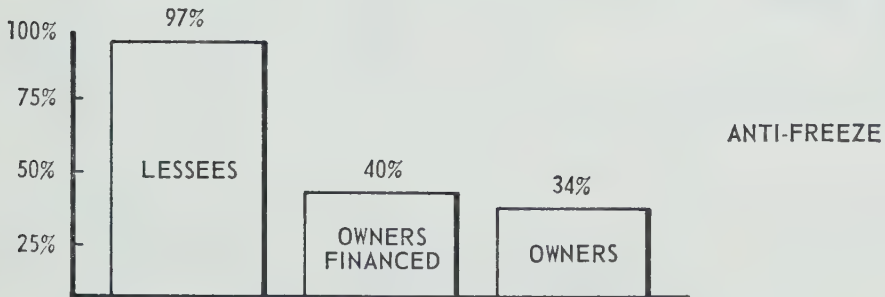
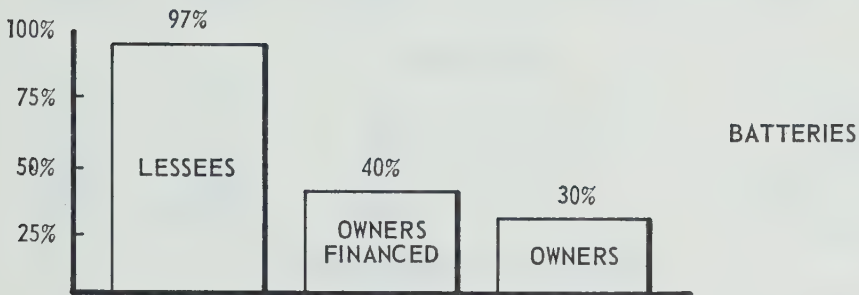
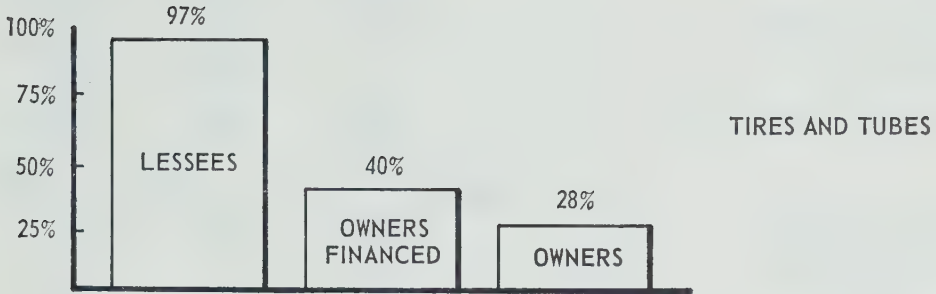


SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

CHART 28

# OFF BRAND RETAIL OUTLETS

PERCENT WHICH PURCHASE FROM OIL COMPANY OR  
SUGGESTED SUPPLIER - ALBERTA 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

Table 32.  
**Percent of Purchases Made by Outlets from Oil Companies or Suggested Suppliers:**

**Tires and Tubes**

Brand	Purchases by Lessees	Purchases by Owners Financed	Purchases by Owners Not Financed
"Cartel" Brand .....	90	54	38
"Other" Brand .....	70	60	45
Off Brand .....	65	15	20
Weighted average .....	<u>79%</u>	<u>50%</u>	<u>37%</u>

**Batteries**

"Cartel" Brand .....	81	37	27
"Other" Brand .....	70	60	40
Off Brand .....	77	15	20
Weighted Average .....	<u>77%</u>	<u>41%</u>	<u>29%</u>

**Anti-Freeze**

"Cartel" Brand .....	65	33	27
"Other" Brand .....	85	50	50
Off Brand .....	77	15	20
Weighted Average .....	<u>71%</u>	<u>35%</u>	<u>29%</u>

**Accessories and Other Products**

"Cartel" Brand .....	42	23	22
"Other" Brand .....	6	5	5
Off Brand .....	47	10	15
Weighted Average .....	<u>35%</u>	<u>15%</u>	<u>17%</u>

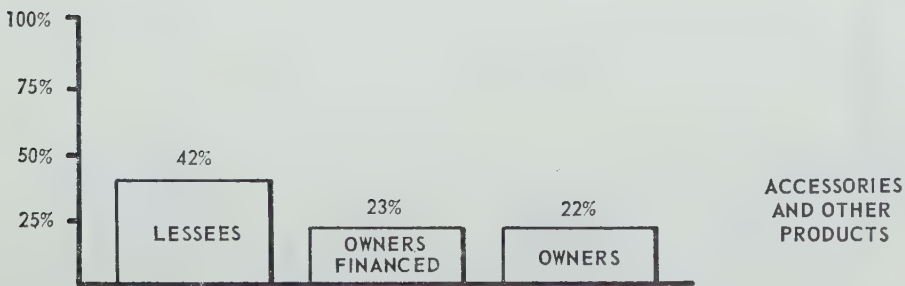
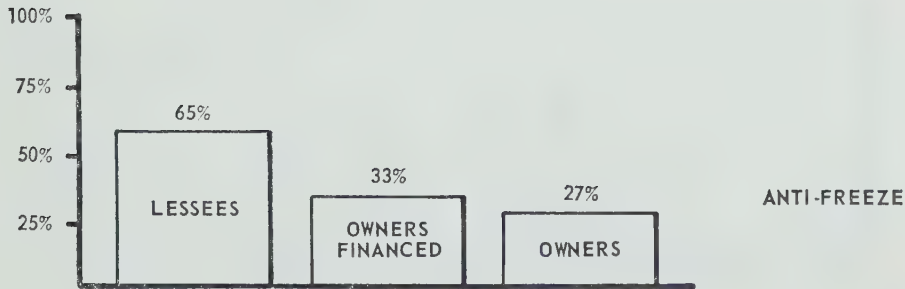
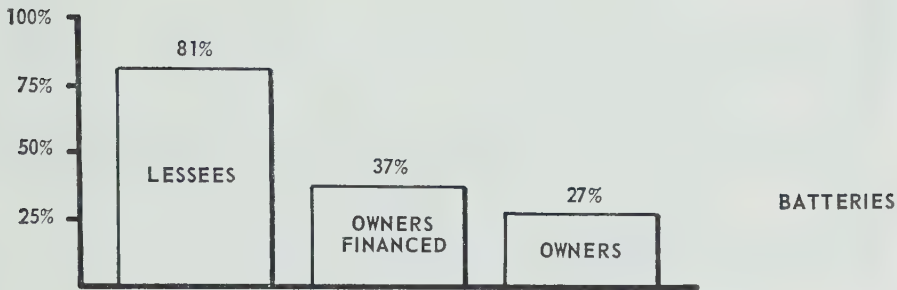
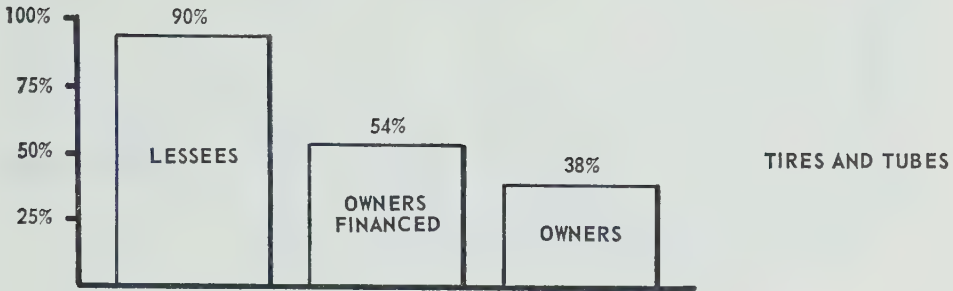
Source: Gasoline Marketing Enquiry Records.



CHART 29

# 'CARTEL' BRAND RETAIL OUTLETS

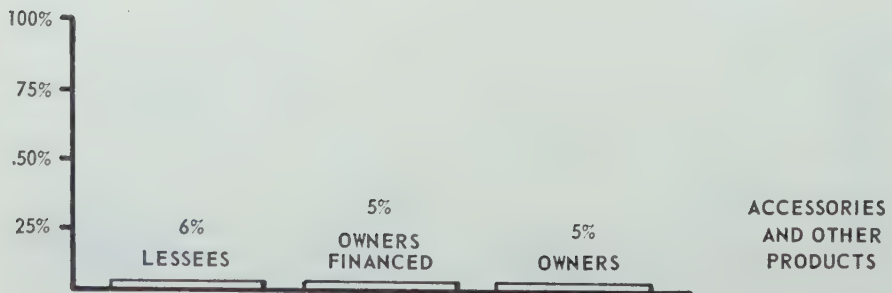
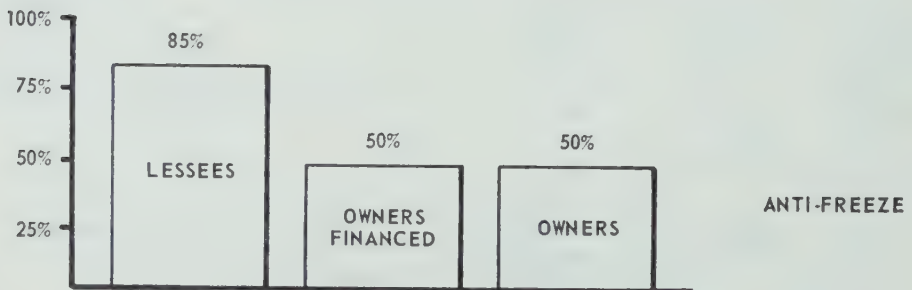
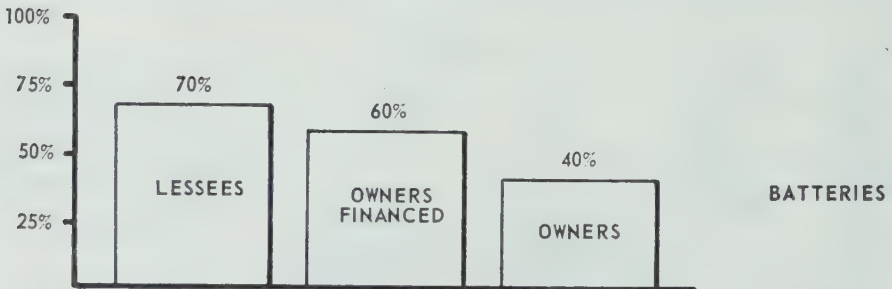
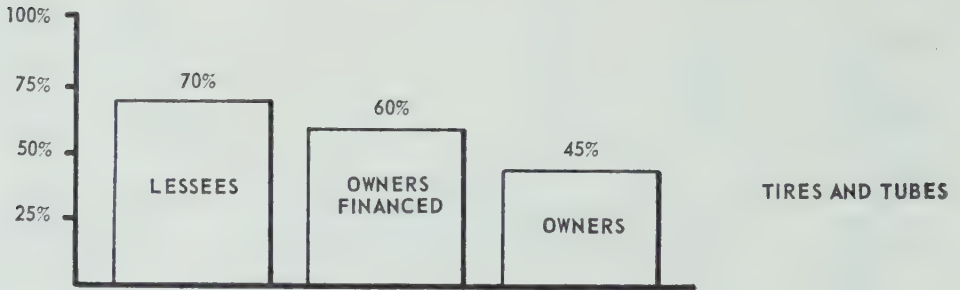
PERCENT OF PURCHASES FROM OIL COMPANY OR  
SUGGESTED SUPPLIER - ALBERTA 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

**'OTHER' BRAND RETAIL OUTLETS**

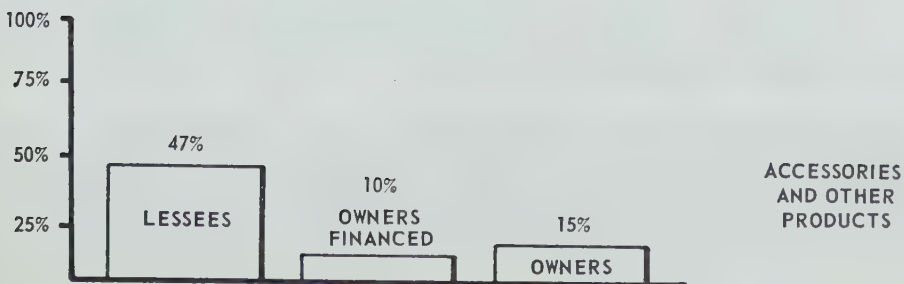
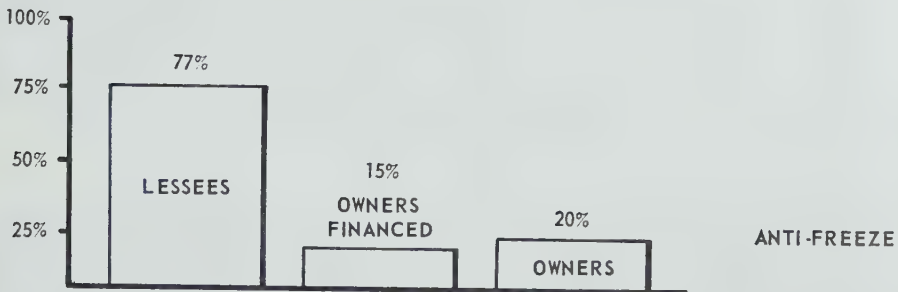
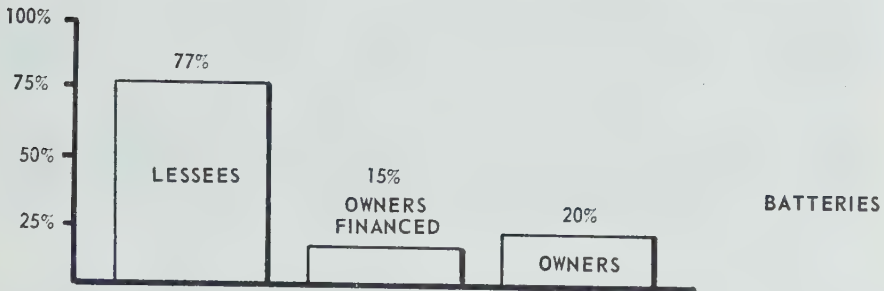
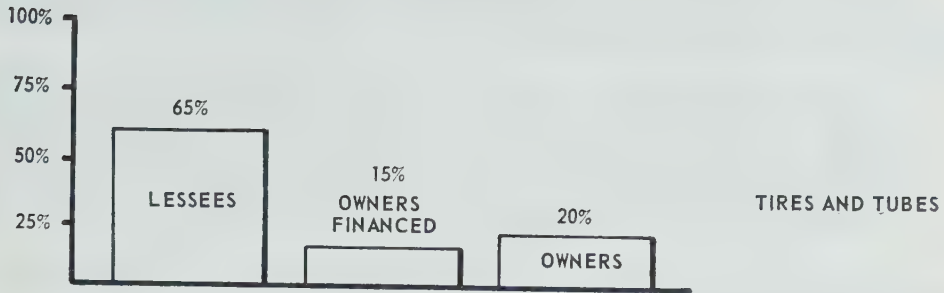
PERCENT OF PURCHASES FROM OIL COMPANY OR  
SUGGESTED SUPPLIER - ALBERTA 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

CHART 31

**'OFF' BRAND RETAIL OUTLETS**  
PERCENT OF PURCHASES FROM OIL COMPANY OR  
SUGGESTED SUPPLIER - ALBERTA 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

## **(6) Independent Suppliers of T.B.A.**

Due to oil company practices of directed buying and full line forcing, the freedom of choice of a service station operator to choose his supplier of other merchandise is being limited to an ever increasing degree. A steadily declining volume is being supplied by independent suppliers chosen by service stations. As there is less and less opportunity for such suppliers their number is declining and there is less competition and less choice.

Some aspects of the market access situation for wholesalers is indicated by the following paragraph from the "Green Book" published by the Restrictive Trade Practices Commission of Canada.

"With some commodities, accessories for example, agreement sales may account for all of a wholesaler's sales to service station dealers. Also, agreement sales may account for as high as 70 per cent of an individual wholesaler's combined sales of all commodities to such dealers. Agreement sales, of course, are of less importance in a wholesaler's total sales of a commodity to all customers and in a wholesaler's total sales of all commodities. Percentages as high as 26 per cent of the total sales of a wholesaler however have been noted".

Wholesalers are concerned about these arrangements, as the following comments from the Green Book indicate:

"Among the reporting companies there were only a few who indicated that they had withdrawn from soliciting business from service station dealers because of principal distributors' full-line forcing or directed buying policies . . . A very small number of wholesalers indicated they had gone out of the automotive products field altogether, because of the above-mentioned policies. While few have taken such decisive steps, the majority indicated that they had had difficulty in selling to service station operators under these conditions. Some stated that they considered that they were precluded from selling to certain service station dealers. Many, including some of those with agreements with principal distributors felt that their sales to service station operators would be higher if the oil companies did not follow these policies."

The report of the Restrictive Trade Practices Commission states at page 131

"Where the revenue is secured from commissions which suppliers pay to be permitted to have preferred access to dealers of the oil company, the supplier may be chosen because of the amount of commission which he offers and not on the basis of superiority of product or of service or lowness of price. The suppliers who are shut off from dealers because of directed buying policies are foreclosed from that market, not as a result of lack of quality in their products or disadvantage in their prices, but because of the exclusive trading arrangements which give them no opportunity to compete."

At page 132 the report states —

"It is likely that smaller producers will be most seriously affected by the foreclosure of markets under arrangements for full line forcing or directed buying. Oil companies with national or large regional service station networks are likely to enter into exclusive arrangements with manufacturers who operate on a national basis or have expensive distributive facilities. A small manufacturer would not be in a position to seek such large contracts and the oil company is not likely to be interested in entering into a series of requirements contracts for local supply. For somewhat similar reasons exclusive arrangements under policies of full line forcing and directed buying are likely to limit the opportunities for new suppliers to become established and to survive."

This table shows the conclusion of the Director of Investigation and Research of the Restrictive Trade Practices Commission as to the proportions of the service station market and of the retail market which are probably not available to wholesalers of the commodities shown.



Table 33.

## Percentage of Service Station and Retail Markets Probably Foreclosed to Wholesalers

Commodity	Exclusive Trading Practice Involved	Service Station Market as Proportion of Retail Market	% of Service Station Market Foreclosed to Wholesalers <sup>(1)</sup>	% of Retail Market Foreclosed to Wholesalers <sup>(1)</sup>
		%	%	%
Lube Oils	Full-Line Forcing	60 to 90	over 90	30 to 90
Greases	Full-Line Forcing	60 to 90	over 90	30 to 90
Anti-Freeze	Full-Line Forcing	30 to 60	60 to 90	15 to 60
Additives	and Directed Buying			
	Full-Line Forcing			
Tires	and Directed Buying	60 to 90	30 to 60	15 to 60
	Directed Buying and			
Batteries	Full-Line Forcing	30 to 60	15 to 90	15 to 60
	Directed Buying and			
Accessories	Full-Line Forcing	15 to 60	15 to 60	less than 15 to 30
	Directed Buying and			
	Full-Line Forcing	30 to 60	15 to 30	less than 15

<sup>(1)</sup> Without market access agreements and excluding principal distributors.

Source: Based on Table 49, Green Book, p.289.

In the "Economic Report on the Manufacture and Distribution of Automotive Tires" submitted to the Federal Trade Commission of the United States in 1966, some of the problems of tire manufacturers in dealing with oil companies were described as follows:

A more fundamental issue is the power of the large oil companies in forcing their stations to carry an approved line of tires. This power could be effectively exerted under either the private-label, the purchase-resale or the sales commission plan. The station's freedom of choice in stocking tires is restricted by any type of oil company TBA plan, and tire manufacturers not associated with such plans will be excluded from the market to a certain extent.

The most detrimental aspect of the sales commission plan appears to be that it favors the large tire producers. Since the oil company assumes none of the wholesaling or distribution functions, these must be performed by the tire company. A small company may not have the resources to provide these functions for a large, geographically widespread oil company. Apparently, Lee Tire had this problem with Atlantic; even under the purchase-resale plan it had difficulty in distributing tires to Atlantic's warehouses.

One way in which a small tire company can successfully operate is by regional specialization; by serving a number of service stations and dealers in one geographic area it is not necessary to have an elaborate distribution network. If, however, most of the service station market is already foreclosed by TBA arrangements, the lot of a small tire producer is more difficult. It has to seek other channels of distribution. Private-label TBA programs may offer more opportunity for participation by small tire manufacturers than either the sales commission or the purchase-resale plan. Since the brand is the distributor's own, he can buy from several different manufacturers and still maintain product uniformity in his stations.

Oil companies are capable of exercising power not only with respect to their own stations but also in transactions with tire manufacturers. Large oil companies, because of the volume of their purchases, are able to negotiate directly with tire manufacturers and obtain special prices and discounts. Companies which sell private-label branded tires are in the position of being able to transfer their orders from one tire manufacturer to another, and can often obtain especially favorable terms from a manufacturer with excess capacity.

There are very few single supplier relationships between oil company private-label purchasers and tire companies.<sup>13</sup> Of the 13 oil companies listed in the FTC tire survey as making private-label purchases, only 1 made all of its purchases from a single source in every year between 1958 and 1963. All of the other companies appeared to shop around somewhat, with a number of changes occurring in buyer-seller relationships during the period. Oil companies also increased the number of

suppliers between 1958 and 1962; the average oil company private-label purchaser was supplied by 1.75 suppliers in 1958 and 2.58 suppliers in 1962.<sup>13</sup> On the whole, oil companies have tended to make nearly all of their private-label purchases from the larger tire companies, but most have not dealt exclusively with any one company. In 1962, major oil companies bought 87.6 percent of their private-label tire purchases from the four largest tire manufacturers.

<sup>13</sup> Single-supplier relationships may be more prevalent under other than private-label TBA plans, such as purchase and resale of manufacturer-branded tires.

<sup>14</sup> FTC Survey of Tire Distribution, 1963.

An independent manufacturer or supplier of an automotive accessory which is sold primarily through service stations is faced with a difficult choice. If he enters into a market access agreement with a major oil company he will gain exclusive or preferred access to a large service station market. However, he then finds that the one purchaser accounts for a very high proportion of his sales and he loses both his bargaining power and his independence. If he doesn't enter into such a market access agreement, he is excluded from the majority of the available market and he has very little opportunity to grow. The viewpoint of one supplier is illustrated by the following copy of a letter from an independent supplier addressed to his Member of Parliament.

11019 Wren Crescent,  
North Surrey, B.C.  
April 14th, 1966.

Mr. Jack Davis, M.P.  
Coast-Capilano District,  
House of Commons,  
OTTAWA, Ont.

Dear Sir:

As a businessman operating in British Columbia, I am facing an almost impossible situation which has recently become more acute and which has caused me to do something I have not done before, namely, write to a Member of Parliament to ask for advice and assistance.

For your information, the Company which I represent in British Columbia sells a line of automotive products, more specifically, automotive ignition parts.

The problem faced by myself, and I am quite sure, others in a like position, is the fact that we are being denied access to the market and are being prevented from doing business with people who could normally be looked upon as customers or potential customers. I have been engaged in this automotive business for many years and am well acquainted with the automotive retail trade. Automotive retailers are well acquainted with our particular line which is considered a quality product and although our line has been supported widely in the trade, more and more of our customers inform me that it is becoming impossible to continue to do business because of pressure put upon them to deal with a competitor handling a different line.

So that you would know more particularly just what I am talking about, I refer to certain trade practices known as "tied sales", "directed buying" and "full-line forcing". By this I mean where my natural market for customers would include garages, service stations and motor car dealers, these firms are almost always involved with a contract through their supplying oil company by which their landlord supplier brings pressure to bear upon them to deal only with designated lines and to purchase through a specific company. The way this situation works is that the oil company, for example, enters into an agreement with one particular company whereby the company agrees to pay the oil company a kickback on all products sold in return for which they obtain what is known as a "market access agreement" to give this particular company an inside track in the sale of their merchandise and to exclude other competitors from the same market.

The company I represent believes in free enterprise and a free market. We have no such kickback arrangements because we know that they are essentially wrong but we are increasingly disturbed because of the closing up of the market.

I will be more specific and give you some examples so that you will understand the seriousness of this problem.

**1. Imperial Oil Stations —**

are now introducing their own brand of Atlas Ignition Parts which they would require a dealer to handle to the exclusion of any other line.

**2. Standard Oil Stations —**

have arrangements whereby Standard Stations are required to deal exclusively with a firm known as Taylor, Pearson Company who handle a competitive line of ignition parts known as "Echlin".

**3. Home Oil Stations —**

there is an arrangement whereby Home Oil dealers are required to deal with the Goodyear Tire Company who handle a competitive line of ignition parts known as "Blue Streak".

**4. Royalite Service Stations —**

have an arrangement whereby they are required to deal with the Firestone Tire Company in handling a competitive line of ignitions known as "Tungsten".

**5. Shell Oil Stations —**

have an arrangement whereby they are required to deal with a firm called Taylor, Pearson who handle a competitive ignition line known as "Echlin".

**6. Pacific Petroleum Stations —**

have an arrangement whereby they are required to deal with Taylor, Pearson who handle a competitive line of ignition parts, in this case made by Echlin and sold under the name of "United Ignition".

With such arrangements in force in the Province of British Columbia, you can surely understand that this almost totally closes the market for a firm such as ours and makes it virtually impossible to do business with hundreds of dealers who express a preference for our product and who would like to do business with us.

Now, you might wonder why I would write to you and what I might expect you to do about this problem. I am reliably informed that this whole matter was investigated some years ago by the Combines people in Ottawa. I am also told that the Restrictive Trade Practices Commission had a full-scale Hearing some years ago and produced a report in April, 1962, making specific recommendations which found, as a fact, the problems I have outlined to you were contrary to public interest and called for Federal Government action to correct the situation.

Because of very grave concern on my part, I have made other enquiries and found the report of this department has been referred to at least three or four Ministers of Justice, from time to time, and although each indicated interest and intention to do something, it appears that no one has got around to actually dealing with the matter.

Surely, as a Member of Parliament, you can appreciate the importance of this problem and as a Member of Parliament, surely you could do something about it.

I trust this is the proper thing for me to write a personal letter to you and will appreciate receiving your assistance and advice. Could you please let me know where this matter stands and what, as a Member of Parliament, you can do about it.

Yours truly,

Keith Sinclair.

**(7) Oil Company Profit on T.B.A.**

Where a market access agreement exists, the supplier who makes sales to the service stations simply pays to the oil company a percentage of his dollar volume of sales.

In the case of tires and tubes the tire manufacturers pay to the oil companies percentages which vary slightly from a low of 9.5% to a high of 12.5%.

The market access agreements with battery manufacturers provide for a uniform 10% payment to each oil company which has entered into a market access agreement.

In the case of accessories and other products the greatest variation is found in the commissions payable by the suppliers to the oil companies. Commissions range from a low of 4% to a high of 10%.

In summary, the percentage return to oil companies on sales made by suppliers of merchandise under market access agreements averages as follows:

Class of Oil Company	Tires and Tubes	Batteries	Accessories & Other Prod.
"Cartel" brand .....	10.73	10.00	6.75
"Other" brand .....	10.83	10.00	8.0

In the case of T.B.A. and merchandise which the oil company or a subsidiary manufactures and sells to its service stations, or in a case where the oil company or a subsidiary purchases merchandise from a manufacturer for resale to its service stations, the net profit of the oil company or its subsidiary resulting from sales by it of T.B.A. items and other merchandise is much more difficult to calculate.



The oil companies point out that the net profit after tax is an estimate only. In order to arrive at this estimate, many allocations of joint costs are required. These range from joint delivery costs of T.B.A. with other products such as automotive oils, to allocations of sales and management time both as between different lines of products and different geographic areas. Some of such costs would not change significantly even if the oil company did not use its personnel to sell T.B.A. There are various methods of allocating joint costs, and the selection of one method of allocation may produce very different profits from the selection of another method of allocation.

Subject to the above qualifications the oil companies provided us with particulars of their dollar volume of sales of various T.B.A. items and their net profits from such sales.

Each of three oil companies reported annual T.B.A. sales of between \$1,000,000 and \$3,000,000. The oil companies had a profit rate of approximately \$100,00 per million dollars of T.B.A. sales.

Their percentage profit on their own sales, and on sales under market access agreements are as follows:

**PERCENT PROFIT ON TBA SOLD BY COMPANY  
OR SUBSIDIARY TO SERVICE STATIONS — Alberta 1965**

Company A	21.0%
B	12.9%
C	0.6%

Source: Questionnaire 12, Questions 57 and 58.

**PERCENT PROFIT ON TBA SOLD UNDER MARKET ACCESS  
AGREEMENTS TO SERVICE STATIONS — Alberta 1965**

Company A	11.4%
B	10.0%
C	8.8%
D	8.6%

Source: Questionnaire 12, Questions 57 and 58.

In the portion of this report dealing with rent, it was pointed out that some companies base their rent on a percentage of sales of the service station. Accordingly the oil company in such a case would receive a 10% commission from the tire manufacturer under its market access agreement, and it would receive a further 6% of the sale price of the tires from the service station operator as rent, where rent is based on 6% of all "other" sales.

### **(8) Price of T.B.A. to The Dealer**

In the service station interviews conducted by the Committee, there were many operators who indicated they had had opportunities to buy T.B.A. items at lower prices than were being offered by their oil company or its "suggested supplier". Generally speaking these complaints came from the larger and more successful service stations which had better records and a better understanding of where their best opportunities for profit were to be found. However, the majority of service station operators indicated that the price from their oil company or its "suggested supplier" was neither higher nor lower than competitive sources but was the same.

This was borne out by oil company replies also.

In the case of tires and tubes six oil companies indicated their prices were the same as competitive sources, one company stated its prices were usually the same but sometimes lower, and two stated their prices were lower.

In the case of batteries six oil companies stated their prices to their dealers were the same as competitive sources, one stated its prices were the same or lower, and two stated their prices were lower.

In the case of anti-freeze nine oil companies stated that their prices were the same as competitive sources, one oil company stated that its prices were the same or lower, and one oil company stated that its prices were lower.

Large numbers of service station operators on the other hand complained that they were paying higher prices to their oil company for anti-freeze than competitive sources were selling it.



In the case of accessories and other merchandise seven oil companies stated their prices were the same as competitive sources, one stated it was usually the same and sometimes lower, and two stated they were lower.

As a general rule it does not appear that the service station operator receives any reduction in price on T.B.A. and other merchandise purchased from the oil company or its "suggested supplier". The oil companies appear to retain the full benefits of any commissions they receive from suppliers to whom they have granted market access agreements, and the oil companies appear to retain whatever profit there may be as a result of their mass buying of merchandise and reselling it to their service station operators.

## **(9) The Public Interest**

The Restrictive Trade Practices Commission has conducted an exhaustive inquiry into the distribution and sale of automotive oils, greases, anti-freeze, additives, tires, batteries, accessories, and related products. The Committee's findings conform to the findings of the federal inquiry and in general the situation in the rest of Canada is not different from the situation in Alberta.

The inquiry was originated in 1953 and carried on an intensive program of data collection for seven years, after which the material collected was assembled and submitted by the Director of Investigation and Research to the Restrictive Trades Practices Commission.

Over 500 copies of the material collected (often referred to as the Green Book) were distributed to interested persons, oil companies, manufacturers, wholesalers, and others who had provided information in response to the Director's questionnaires. The recipients were invited to present written briefs or make submissions related to the inquiry to the Commission.

Various briefs and submissions were heard in public hearings held in Ottawa during September of 1961. The Report of the Commission was submitted to the Minister of Justice in March of 1962.

The findings and recommendations of the Commission are found on pages 128 to 135 and the following quotations are extracted from those pages:

"It appears to the Commission that there are strong grounds for believing that costs of marketing tend to be increased under market access agreements." (p. 128)

"Some dealers considered that they received poorer service from their suppliers under exclusive arrangements than they would have obtained if they had been making purchases from competing suppliers." (p. 129)

"When a motorist enters a service station he becomes a 'captive customer' at the point of sale and that his choice is thereby restricted to the products available at the service station . . . Policies of full line forcing and restricted buying mean the displacement of a variety of competing lines by the line distributed or sponsored by the supplying oil company and thus the consumer at the service station is limited in his range of choice." (p. 129)

"The influence of full line forcing and directed buying in restricting the variety of products handled at stations affected by such policies and in reducing competition in the purchase and sale of such products would operate to the disadvantage of customers relying on such stations." (p. 130)

"One of the purposes of full line forcing and directed buying is to insure the exclusion of competitive products from the trade channels being operated under such policy. The effect is to eliminate alternative sources of supply and this means that the service station dealer so controlled does not have the opportunity to shop around for the goods he stocks. One of the public safeguards which the competitive system provides to rival suppliers seeking to advance their trade by offering better prices, terms, quality of goods or service is consequently removed." (p. 130).

"There is no assurance that whatever lowering of price was secured by the oil company through exclusive contracts would be passed on in the form of lower prices at the service station level." (p. 131)

"After full consideration of all the relevant information disclosed in the inquiry, the Commission concludes that the policies of full-line forcing and directed buying in connection with service station products do not result in benefits to the public

which could be expected under normal competitive marketing of a non-exclusionary character. It is the opinion of the Commission that full-line forcing and directed buying arrangements, when applied by the larger oil companies, each of which has a substantial share of the market, do have exclusionary effects which are likely to lessen competition directly and indirectly to the disadvantage of the public. The disadvantages will arise not only from a lessening of competition in the narrowing of the range of products offered to and sold by service station dealers, but from the limiting of opportunities for manufacturers and distributors not possessing contracts with oil companies to enter the service station market. The Commission considers that the disadvantages to the public from the exclusive arrangements under full-line forcing and directed buying are likely to become more serious with the growth in the number and importance of leased service stations. It would appear desirable, therefore, to strengthen the provisions of the Combines Investigation Act with respect to tying arrangements in any field of trade which are likely to restrain competition to the detriment of the public." (p. 132)

### Recommendations

The Commission recommends that definitions of exclusive dealing and tying arrangements be included in the Combines Investigation Act, which would embrace policies involved in full-line forcing and directed buying, as disclosed in this inquiry, and all policies which have the effect of requiring or inducing any buyer or seller to deal exclusively with another, or which have the effect of making the purchase or sale of one commodity conditional upon the purchase or sale of others. In order to make the definition sufficiently comprehensive, it would appear necessary to include arrangements applying to agencies and consignment sales. It is clear that such a wide definition without qualification, would cover arrangements which would have no serious restrictive effects upon trade or which might, in fact, create more active competition. There should, therefore, be a prohibition of exclusive dealing and tying arrangements, as defined, which are likely to lessen competition substantially, tend to create a monopoly or exclude competitors from a market to a significant degree.

The situation created by the market access agreements made by some oil companies with particular suppliers has been of concern to the Commission. It does not appear to the Commission that, in the circumstances of the trade in service station products in Canada, such agreements can be economically justified in terms of benefit to the public. In the Commission's opinion market access agreements in this field are likely to have the effect of strengthening the exclusionary influences which result from the arrangements between oil companies and their dealers and to create a cost-increasing tendency with respect to products affected. The Commission recommends that agreements or arrangements which give one or more suppliers exclusive or preferred access to a group of outlets in return for a commission on sales to such outlets be prohibited where such agreements or arrangements are likely to lessen competition substantially, tend to create a monopoly or exclude competitors from a market to a significant degree. It may be considered that the incentive for market access agreements would be removed by a prohibition of exclusive dealing and tying arrangements as proposed above and that market access agreements which form part of an unduly restrictive policy of directed buying could be dealt with as an element of the offence under the provisions of section 31 of the Combines Investigation Act. Nevertheless the specific prohibition of market access agreements of an unduly restrictive character would strengthen the safeguards against such arrangements and would be desirable if it could be framed in a way which would not prejudice selling arrangement of an innocuous or beneficial nature.

The Gasoline Marketing Enquiry Committee of Alberta is also of the opinion that oil company practices in the marketing of T.B.A. are not in the public interest.

The oil companies use market access agreements to obtain commissions or use mass buying to obtain price discounts. However, the savings so effected, or the profits so earned, are retained by the oil company and are not passed on to the retailer by lowering his price. The following aspects would not appear to be in the public interest—

- (a) the costs of marketing tend to be increased, oil company profits are increased, and there is no reduction in price to the retailer or to the consumer;
- (b) the retailer's business is less profitable and his chance of business failure is increased because he is restricted from buying at cheaper prices when the opportunity arises;



- (c) it deprives the retailer of the freedom to provide his customers with a choice of merchandise, and to take advantage of buying opportunities for better quality, better service, and cheaper price;
- (d) it has adverse effects on independent wholesalers by limiting their markets and restricting competition;
- (e) it deprives the customer who patronizes one service station of a choice of brands and prices at that station.

The Committee considers that oil companies should be free to compete with other suppliers of T.B.A. on the basis of the quality price and service they can provide, but they should not compete by excluding their competition by contracts such as market access agreements, directed buying and full-line forcing. The Committee considers that wholesalers should be free to sell to any service station retailer and should not be excluded by contracts requiring the service station operator to buy exclusively from one supplier.

The Federal Trade Commission has laid complaints before United States Courts charging unfair methods of competition against oil companies in connection with T.B.A. and commission agreements. The possibility of implicit or explicit coercion by oil companies in T.B.A. sales was examined in the following cases:

In the Matter of B.F. Goodrich and the Texas Company (Docket No. 6485), In The Matter of The Goodyear Tire & Rubber Company and the Atlantic Refining Company (Docket No. 6486), and In the Matter of Firestone Tire & Rubber Company and the Shell Oil Company (Docket No. 6487).

The lower Court found that the oil companies exercised enough power over their dealers to constitute inherent coercion, and accordingly the commission agreements between the suppliers and the oil companies were declared illegal. The oil companies appealed claiming there was no proof of overt coercion in their merchandise arrangement, but the Supreme Court upheld the judgment that proof of overt coercion was not necessary to make commission agreements illegal.

In California in The West Coast Oil Case the United States of America obtained a judgment against a number of large oil companies. A portion of the judgment prohibits these oil companies from entering into or enforcing an agreement with a service station dealer which requires the dealer to purchase from the oil company or from a source designated by the oil company the dealer's requirements of tires, batteries or accessories or which require the dealer to refrain from handling such products obtained from any other source.

In Great Britain, the report of the Monopolies Commission was implemented by "voluntary undertakings" on the part of the oil companies. The effect of one of the undertakings given by the oil companies to the government was that lessees of service stations were entitled to stock, sell and advertise any brand of T.B.A. they wished to deal in. The oil companies undertook not to participate in arrangements under which they stood to benefit from the promotion and sale of T.B.A. by the oil companies, retailers, tenants or lessees.

The Federal Trade Commission of the United States obtained court orders prohibiting oil companies and suppliers of tires from using the sales commission plan for marketing of tires.

The lengthy enquiries by the Restrictive Trade Practices Commission in Canada, by the Monopolies Commission in Great Britain, and in the West Coast Oil Case in California all came to the conclusion that oil company practices of directed buying and full-line forcing were not in the public interest.

The Gasoline Marketing Enquiry Committee recommends that service station operators in Alberta be given freedom to stock, sell, advertise and deal in any brands of T.B.A. or merchandise notwithstanding the provisions of any contract, and that any penalties or prohibitions limiting or deterring such freedom be declared to be null and void, unenforceable, and of no effect.

## CHAPTER 14. REPAIR

The repair and servicing of the customer's vehicle traditionally has been associated with outlets for the sale of petroleum products. Frequently laws or regulations require as a condition of a license to retail petroleum products that minimum repair services be available to the public.

There is always debate as to whether the sale of gasoline brings in the customers whose vehicles require repair, or whether the existence of the repair facilities bring in the gasoline customers. In any case these two divisions of the service station business complement and support one another.

Originally oil companies were primarily interested in the petroleum sales division of the service station business.

In the repair division of the service station business the service station operator enjoyed the most freedom from oil company interference in his business and it was also the most profitable aspect of his business.

However, as the number of privately owned service stations decline and as the number of oil company owned and lessee operated service stations increase, oil companies are becoming increasingly involved in the repair division of the service station business.

The directed buying arrangements, the full line forcing arrangements, and market access arrangements which the oil companies used to obtain a commission or share of profit on sales of merchandise through service stations are now being used to obtain a share of the profit on an increasing line of repair parts supplied by oil companies.

As privately owned service stations declined in number and oil company owned stations increased in number, oil companies had to face more demands from their tenants for the provisions of increased numbers of service bays.

Oil companies were willing to subsidize service stations and facilities which increased the sale of petroleum products but there was more reluctance to provide service bays, which provided no revenue other than rent, particularly if rent was subsidized. The oil company usually wanted its lessee operators to concentrate on increasing their sales of petroleum products which contributed materially to the oil company profits, rather than having the lessee concentrating on the repair division of his business which generated the most profits for him. There are accordingly many cases where the lessee considers his business justifies an additional service bay but he can't reach agreement with his oil company landlord on mutually satisfactory terms for the construction of such a service bay.

This problem is to some degree reflected in changes in rental formulae used by oil companies. When an oil company wanted to subsidize an outlet for the sale of petroleum products it could simply fix a low rental expressed in dollars per month or in cents per gallon of gasoline. In such cases the oil company became concerned about its inadequate rental rate if the operator wasn't selling much gasoline but was gaining a large proportion of his income from his repair business and was asking the oil company to build another service bay for him.

Some companies then adopted a rental formula based on their estimate of the lessee's gross profit (which of course included profit from the repair division) and used a percentage of this figure to determine its rent. This gave the company some income based on profit from the repair division of a service station.

In the Committee's study of service station economics reported in Part 6, the Committee found that gasoline accounted for a high proportion of the total sales but a low proportion of the profit in most service stations. If the rental formula is based on a flat rate percentage of gross profit the percentage has to be low because the rate of gasoline profit is low. The low rate applied to a relatively low volume of repair doesn't produce much additional rent.

As reported in the chapter on rent, one company has now adopted a formula for rent under which it collects 1c per gallon on motor fuel sales, plus 6% of "other" sales, because greater profits are earned in "other sales" such as in the repair division. This produces more rent for the oil company from the repair division of each service station.



As service stations are becoming more closely identified in the minds of the public with the oil companies whose products they sell, the oil companies are becoming more closely concerned with the quality of repair work done by service stations which affects the public image of the oil company. Some oil companies are now building large diagnostic centres or repair clinics operated directly by the oil company itself which actively engage in the business of diagnosing mechanical problems and repairing motor vehicles. More companies are building large service stations with several service bays.

Accordingly the oil companies are taking an increasing interest in the repair divisions of service stations and an increasing share of the profits derived from such repair operations.

## CHAPTER 15. CREDIT TO CUSTOMERS

### (1) Credit Granted by Operator

The granting of credit is an important part of doing business in a service station, but it can become a serious problem. Too much credit too freely given can result in credit losses which will ruin the business. Too little credit can lose profitable sales for the operator and drive good customers away. Many operators with no previous business experience have no knowledge of how to control credit, and nothing to guide them.

For many years the service station operator like any other small business man, granted all of the credit that was granted to his customers. The successful operator who granted credit wisely earned the gratitude and loyalty of his customers, and the customer was inclined to go out of his way to deal with an operator whom he knew and with whom his credit reputation was good. The granting of credit was clearly a substantial contributing factor to the existence of "goodwill" enjoyed by the service station operator as an independent business man. An operator whose business practices had built up "goodwill" of his customers could switch the brand of gasoline that his service station handled with the assurance that many of his customers would continue to deal with him.

The oil companies have followed various practices which tend to reduce the goodwill enjoyed by a service station operator and to increase the goodwill of the customer to the product and the oil company such as—

- (a) they try to prevent lessee operators from buying or selling goodwill; and
- (b) in advertising there has been a decreasing emphasis in the advertising of the operator's name and the name of the operator's business, accompanied by increasing emphasis on product advertising and the oil company's brand name; and
- (c) the manufacturer of gasoline who has already sold it to the service station operator steps in and issues its credit cards to customers of the service station and assumes the duties of the operator in collecting from his customers, giving the operator credit for such collections.

By issuing credit cards to the motorist and by collecting accounts from the motorist, the oil company is educating the motorist to regard himself as a customer of the company rather than a customer of the particular service station operator. The customer's loyalty to the brand name is encouraged and one of the reasons for the customer's former loyalty to the operator has been removed.

The disadvantage to the operator from loss of goodwill was not as apparent to him as the immediate advantage of not requiring as much working capital for the purpose of granting credit, and being relieved of the responsibilities and risks of extending credit and collecting from customers. The credit card relieves the operator of some financial worries but deprives him of a measure of his former independence and goodwill.

### (2) Credit Cards and the Opportunity to Influence the Motorist

The credit card gives the oil company direct access to the customers of the service station operator. The oil company is directly in touch with the motorist on a regular basis when it sends out his personal monthly statements.

At very little additional expense the oil company can enclose in the envelope with the statement, advertising material.

If it advertises that its brand name stations carry a certain product this is a form of compulsion on individual operators to carry that product. If it advertises directly to the customer that his service station operator will have a certain product available at a designated price, this exercises compulsion on the dealer to sell at that price. In the dealer's particular circumstances the price advertised by the oil company may be just right or too high or too low. In any case the oil company has advertised it, the motorist expects to be able to buy it at the advertised price, and this in effect compels the service station operator to sell at that price whether it is profitable for him to do so or not.

Another type of advertising which creates problems for the service station operator is when the oil company advertises that "free" services will be performed by the service station operator. This involves no cost for the oil company but it

creates costs for the service station operator and reduces his profit. Conditions vary greatly from station to station and in some brand name stations the performance of "free" services advertised by the oil company can create a considerable hardship.

As an illustration the following is an excerpt from a mailing piece which was included with accounts being sent out to the credit card purchasers of one oil company —

"We check (free) your whole cooling system. We flush it out. Check all the hoses and clamps... We put in... anti-freeze... And finally we give you a written guarantee that is good at any (name of brand) station in Canada. So you are protected — and if you ever need 'topping up' afterwards, its free too."

The oil company advertises this "free" service but it is the service station operator who has to pay for it. The flusher that is required to flush out the cooling system costs the operator approximately \$450.00. It takes approximately one hour's labor to flush the radiator. The service station operator has to purchase his own flusher and he has to pay the labor. He can't charge the customer because the oil company has advertised directly to the customer that their operators will do this "free". If during the winter a motorist boils over his anti-freeze and needs "topping up," the advertising circular states the additional anti-freeze is free too. The service station operator has to buy the anti-freeze from the oil company, but the oil company advertises directly to the customer that the operator will give it away free. The motorist who requests the service station operator to "top up" his anti-freeze free, may not be a customer of that operator, but the operator is under compulsion to supply free anti-freeze because the motorist has a written guarantee that is good at any station of that brand in Canada.

The Committee considers it to be unfair for an oil company to advertise to the customers of a service station operator that the operator will perform any service for a designated price or will perform any service free.

If the oil company was running the risk of the success or failure of a particular service station and if the oil company was writing out the pay cheques to the employees of that service station then it would be appropriate for the oil company to fix retail prices at that station or determine what services were given free by that station. However, as long as the service station is run by owners or lessees who are supposed to be "independent business men" the oil company should not determine what prices those men should charge for the merchandise they buy or what services they should provide free.

The credit card billing to the motorist frequently is accompanied by advertising of some well known item of merchandise which is available to credit card holders only, at a greatly reduced price. This fosters the impression in the mind of the motorist that his credit card is the item which enables him to obtain various kinds of bargains. By association this may make him consider his gasoline is a bargain even though he pays a higher price for it than any other category of gasoline buyer.

### **(3) Credit Cards, and Quantities Purchased**

The Observation Research Corporation, of New York City conducted a nation wide survey of service stations on behalf of the Coca Cola Company and four leading oil companies.

They found that credit users buy more. Credit purchases averaged \$4.07 as compared with cash purchases which averaged \$2.49. The credit purchase was accordingly two-thirds more than the average cash purchase.

Women customers are the biggest credit users. 25% of the women drivers used credit compared to 18% of the men drivers. The survey concluded that one way of increasing service station sales and profits was to develop more credit customers. People make bigger purchases when they can "charge it". Accordingly encouraging people to use credit should be an effective method of increasing sales.

Motorists are aware from their own experience of the activities of the oil companies in encouraging the use of credit cards.

### **(4) Competitive Advantage From Widely Acceptable Credit Card**

Not only do credit cards encourage the purchase of the product. A credit card that is acceptable in service stations from coast to coast, gives the gigantic



international oil companies a tremendous competitive advantage over small oil companies which operated in a limited area. The motorist travels all over the continent. The advantage to him in having a single credit card which enables him to acquire gasoline wherever he travels is very great. This kind of a credit card gives the international oil company a competitive advantage small independents and off-branders cannot match.

In the beginning some oil companies confined the use of their credit cards to purchases of gasoline, oil and other petroleum products. However, it was in the interests of the oil company to encourage sales by the service station of tires, batteries and other merchandise which were either sold by the oil company to the operator or in respect of which the oil company received a commission from the manufacturer. Just as a credit card which was widely acceptable geographically gave the oil company a competitive advantage, so also did a credit card which was widely acceptable for a wide range of products and services. Most oil company credit cards now cover a wide range of products and services in the brand name service station.

#### **(5) Costs of Credit**

Although credit to the customers of a retailer is normally a cost of retailing, when the manufacturers of gasoline decided to go into the business of granting retail credit for purposes of promoting their sales, they added the cost of such credit to the cost of gasoline itself.

This practice is unfair—

- (a) to the retail purchasers of gasoline who buy for cash and do not use credit; and
- (b) to retail competitors of the integrated brand name oil companies who buy their gasoline from such companies but who in addition have to incur their own costs for extending credit.

The price of gasoline to the motorist is the same whether he purchases for cash or uses credit. The cash purchaser obtains gasoline alone, but for the same price the credit purchaser obtains both gasoline and credit.

Some oil companies advertise that outlets selling their brand name products will accept all credit cards. This compels the service station dealers who sell those brands of gasoline to accept whatever credit card the motorist presents. When the service station dealer claims from the company which issued the credit card for the amount of the credit purchase on that card that company normally charges the dealer a collection charge of 5% which is approximately 2c per gallon. In an above average station the operator's profit per gallon on gasoline sales is 1½c as illustrated in chart 48 and in table 44. In large numbers of stations the profit per gallon is much less. If the operator's profit is reduced by a credit charge of 2c per gallon, in a majority of cases this will wipe out the operator's profit on the gasoline sale and result in a loss per gallon for every gallon sold.

The B.C. Royal Commission calculated the cost of credit to be 1½c per gallon of credit card sales. The calculations of all oil companies indicate as shown in Table 137 that the cost of credit cards averages 1.38c per gallon of all gasoline purchased on credit in Alberta. If the cost of credit is spread over not only the gasoline purchased on credit but the gasoline purchased for cash as well, the cost of credit is reduced to half a cent per gallon.

It seems clear to the Committee that the users of credit should pay the cost of credit they use, and that those who do not use credit should not have to pay for it.

The Committee considers that the oil companies should recover their cost of credit cards by adding to each credit card customer's monthly statement, a credit service charge based on the purchases actually made on credit by that customer. The customer will then have a free choice of whether he wishes to buy for cash and save the cost of credit or whether he wishes to use the credit card service and pay the costs for this convenience. The periodic billing by credit card should show the cost of gasoline at the same price as the cash customer pays, and the cost of credit in respect of the customer's purchases could be shown as a separate item.



## CHAPTER 16. ADVERTISING

### (1) Emphasis on Brand rather than Operator.

The service station used to be identified in the minds of the public with the name of its operator which was prominently advertised and displayed. Customer loyalty was earned by the quality of the operator's service, and the brand of products handled was of secondary importance. The customer dealt with the operator he had confidence in, and he bought the products the operator chose to handle. The operator clearly had "goodwill", and if he changed brands most of his customers continued to patronize his outlet. In such circumstances the operator had some independence and some bargaining power with his oil company.

As the number of privately owned outlets decline, and as the number of lessee outlets and the volume sold by lessee operated outlets both increase, increasing prominence has been given to the company name and the brand name and the name of the operator has almost been eliminated from the premises of most service stations. In such circumstances the operator has less goodwill and he is less conscious of the goodwill he builds up and acquires. At the same time the public is less conscious of terminations and changes in operators, and the brand name goes on forever.

Oil companies by extensive campaigns over a period of years have been trying to promote the loyalty of the customer to a brand name, rather than to the particular owner or outlet from whom he has been in the habit of purchasing.

As customer loyalty to the brand is built up and as customer loyalty to a particular operator declines the operator has less independence and less bargaining power with the oil company.

With the increasing mobility of people, nationwide brands have an increasing advantage. The traveller or the stranger in the new community who doesn't know an operator is attracted by a familiar brand.

The nationally advertised brand gains an increasing advantage over local brands.

Although the service station operator benefits from the product and brand advertising conducted by the oil company, its most important effect is to assist the "cartel" companies in maintaining their monopolistic position in marketing. The gigantic international oil companies with their internationally advertised brands have a marked competitive advantage over small oil companies marketing in a limited area.

The average advertising expense reported by the "cartel" subsidiaries operating in Alberta in answer to questionnaire 13 was approximately \$500 per retail outlet, or 0.61c per gallon of gasoline sold.

The term advertising covers advertising of all sorts, including national and local advertising, advertising by various media such as newspaper, radio, T.V. and billboard, brand signs on premises and vehicles, point of sale advertising, road maps and touring services, special promotions involving gifts or prizes, and general publicity and public relations of all sorts.

### (2) Contracts Enable Emphasis on Brand Advertising

The right a dealer formerly exercised to advertise his name and his business has been whittled down and the oil company's right to advertise its name and its products on the dealer's premises has been built up by contract provisions appearing in various contracts.

The oil companies in answer to question 75 reported on contracts containing provisions requiring the dealer to advertise the oil company and its brand products and limiting or restricting the dealer from other advertising. Each company reported several contracts containing such requirements, limits or restrictions, as follows:

Company	No. of Contracts
A	7
B	7
C	7
D	5
E	4

Several of these contracts contained more than one provision relating to advertising.

A **lease** provides that the oil company may erect and maintain such advertising signs on the service station premises as it deems advisable and the operator will not erect any other signs or advertising except with the written consent of the oil company.

A **mortgage** provides that the operator will promote the continuous sale of the oil company's products under its brands and trade marks. The mortgage provides that the operator will paint his buildings, pumps and equipment in the color scheme of the oil company and use its advertising.

An **equipment loan agreement** obligates the dealer to use the equipment solely for the storage handling and display of petroleum products manufactured by the oil company.

An **agreement for a loan of money** to a dealer provides that the oil company may erect such advertising signs on pumps and premises as it deems advisable and the operator agrees to keep them in good repair and condition and not to erect or permit any other signs without the consent of the oil company.

In a **plastic sign lease** the dealer is obligated to erect or install the signs and advertising devices on the premises of the dealer in such locations on the premises as may be designated by the oil company.

In a **dealership agreement**, the dealer undertakes not to affix to a sign or pole any other sign, placard or advertising except with the written consent of the company.

In a **conditional sale contract of equipment** the dealer is obligated to use the equipment exclusively for the sale of the company's products and until all monies are repaid he agrees not to sell, deal in or handle petroleum products purchased from any other person, firm or corporation.

In an **agreement for consignment of merchandise** the dealer agrees to submit to the oil company for its approval, samples of all signs and other advertising which the dealer proposes to use in advertising the merchandise, and upon termination the dealer is required to cease to use the signs, brand names, advertising and color schemes of the oil company.

In a **service station lease** the operator is responsible for installing advertising decals, etc., supplied by the oil company and he is required to report to the oil company any damage, defect or malfunction in the oil company's identification signs on the premises.

The oil company furnishes to the dealer signs and advertising devices which the dealer agrees to use solely in connection with the sale of the oil company's products. A **dealership agreement** provides that the dealer will not sell under the oil company's trade marks, trade names or color scheme any products other than those purchased from the oil company.

As a result of such provisions service station premises now carry very little advertising of the name of the business or the name of the owner and there is heavy emphasis on the advertising of the oil company's brand name and products.

Oil company marketing executives advised us that the most important factor in attracting customers to a service station was the confidence of customers in an operator. This "goodwill" used to attach to the operator and to his business name. However, the advertising emphasis at the service station on the color schemes of the oil company, its trade marks and brand name, tend to transfer "goodwill" from the operator to the company and to make the customer regard himself as a customer of the company.

### (3) "Shared Cost" Advertising Programs

Some oil companies contribute to local advertising programs where the cost is shared, partly by the oil company and partly by the local operators. These shared cost programs as distinct from special promotions sponsored by the oil companies, are not a major feature of the over-all advertising program.

Two companies reported that they did not participate with individual service station operators in cooperative advertising on a local basis. Three companies do participate in shared cost advertising.

One of these companies reported that it does not conduct or initiate such shared cost advertising programs but on occasion, the company supports with funds a group of dealers who have initiated a local promotion.

Another company which participates in these programs described its activities in part as follows:

"Such programs are usually used for service station openings and special events, although they may be used in connection with T.B.A. sales. In all programs of this kind, operator participation is voluntary. It is customary for the Company to provide all point-of-purchase material and mailing pieces while the cost of advertising in newspapers, radio and television is shared between the Company and the operator. Merchandise or other material given away in such programs is usually purchased by the operator at Company cost with a portion of the material cost often being subsidized by the Company."

Another company indicated that its participation in such programs consisted of supplying mailpieces to operators who requested them, the provision of art work, mats and cuts to be used in advertising, radio scripts and television commercials, and in some cases a percentage of the media costs.

Depending on the program, the oil company contribution varies from 25% to 75% of the total cost with the operators paying the balance. The oil companies indicated their average percentage contribution was about 50%.

The following is an illustration of such a program:

A radio campaign was broadcast over a local radio station for an eleven week period. The purpose of the campaign was to advertise oil company products and to give commercials for the participating dealers. Thirty second spot announcements were broadcast several times per week during the eleven week period on broadcasts originating from various stampedes, fairs and rodeos. The oil company paid 50% of the cost of the program and the 30 dealers paid the remaining 50%. The cost per operator was under \$40.

The following is another illustration of such a program.

The service station dealers of an oil company were interested in decorating their stations during the annual fair in their community. The oil company on their behalf investigated the source of decorations and the costs. The oil company agreed to pay 45% of the total costs and the participating operators paid the balance. The cost per operator was approximately \$25.

No problems appear to arise between oil companies and operators in respect of shared cost advertising.

#### **(4) Gasoline Special Promotions**

The subsidiaries of the four "cartel" companies marketing in Alberta appear to give tacit recognition to the presumption that none of them will benefit from price competition and all would suffer from lower prices. Occasionally if an independent or off-brand dealer lowers his prices too far the major companies all lower theirs in the limited area where he operates until he learns there is no profit for him in such a practice or until he is driven out of business.

However, in the normal situation there is no advertising of gasoline price by the major companies and no price competition in selling to service stations.

There is however vigorous competition by advertising and by every means other than price to increase each company's market share without lowering prices.

In the October 1968 issue of the publication "Consumer Reports" an article was published entitled "Buying Gasoline" which read in part as follows:

"The pitchmen's spiels may change, but a carnival air still surrounds the selling of gasoline. Yesterday, the pitchmen insisted that ever-higher octanes worked ever-greater wonders in automotive performance. Today, the spiel emphasizes mysterious ingredients that somehow convert ordinary gasoline into a magic elixir for your car. Yesterday, giveaways and trading stamps were the favorite comes-ons. Today, proliferating games of chance, promoted more stridently than the gasolines themselves, have turned most service stations into bingo parlors.

The industry seems determined to confuse rather than inform the consumer. He's given no more real facts about the product than he ever was. Octane ratings don't appear on gas pumps. An apparently 'exclusive' additive, such as Shell's 'mileage



ingredient,' Platformate, turns out to be a component similar to those used in formulating other brands of gasoline... Present reforming is accomplished largely with platinum-type catalysts. Shell calls the resultant product Platformate... And most other gasolines sold have been compounded to achieve results similar to the Platformate fuels...

Neal A. Pritchard, Vice-President for Automotive Planning and Market Analysis, TRW, INC. as quoted in "Advertising Age" and reprinted in the October 1968 issue of "Consumer Reports" in the article entitled "Buying Gasoline" is reported to have stated:

If we continue to insist... that a gasoline is better because it contains a certain ingredient, when practically all of them do, are we not asking for a 'truth in advertising' bill that would extend controls far beyond what exists now? It is this skirting the edge of legality, staying just a shade short of untruth, that endangers us all...

In the October 1968 issue of the publication "Consumer Reports" an article was published at page 528 relating to advertising which reads in part as follows:

Whatever happened to that friendly service station owner with the basset hound who worried about your car? Whatever happened to all those nice, clean rest rooms? We don't hear about them any more; it's all fun and games these days. As a result, we do hear about the fellow in North Carolina who collected several thousand gasoline-game coupons, hoping to make some money for a local charity. He won all of \$21, and concluded he'd almost be better off with chewing gum on the end of a string, fishing for quarters through sidewalk gratings. A newspaper columnist in Cincinnati solicited, again for a local charity, 5125 game coupons and netted \$9 — and that \$9 worth of winners all came from a sealed box of cards he'd bought from a local service station for \$15. It's hard to make money that way.

Both Congress and the Federal Trade Commission are taking cool looks at the blight of gas-station games of chance...

By contrast, trading stamps provide a relatively reliable return, of sorts. It is estimated that their cost adds from 0.7c to 0.8c per gallon compared to the games' basic cost of 1.5c to 2c per coupon.

The games work this way: A company that markets such games sells the game materials to an oil company, which in turn sells them to its retail service stations, which give the coupons out to customers (or, sometimes, to anyone who wanders in off the street and asks for one). Each game is set to run for a limited time period, usually about six weeks. Thereafter a new game usually starts — "Dollar Jollies" may be followed by "New Dollar Jollies" and "Dollar Jollies Plus." But coupons given for one game are worthless for later ones.

The oil company pays for advertising the game and reimburses retail dealers for any prizes their customers win. According to the survey of the Subcommittee on Small Business, in 1966 and 1967 one typical company (unnamed) spent about \$7.2 million advertising its games. It paid about \$3.8 million to game companies, for materials. It paid its dealers \$7.7 million in prize money and received from the dealers \$8.3 million for game materials — the dealers, then, wound up losing about \$600,000 on the deal. Total cost to the oil company: \$10.4 million. Biggest winner: the advertising media."

Mr. D. H. W. Henry, director of investigation under the Combines Act was quoted as follows in commenting on another industry which has some similarity to the oil industry:

"Instead of price competition, Mr. Henry said, the industry competes internally through product differentiation requiring inordinately large sums for promotion.

'Competition is therefore cost-increasing rather than price-reducing.'

Development of price competition, he said, 'is the soundest remedy and will also be effective.'

"He added that price appears to have no identifiable relation to cost and does not, as it would under competition, tend to 'approximate cost of production but rather tends to be considerably above it.'"

Dr. Winn, a Marketing Specialist at Colorado State University in a panel discussion in Denver in 1966 discussed this type of non-price competition. He pointed out why some companies consider it better to compete on some other basis than price, as follows:

"Everybody gets hurt in a price war. If you can attract the consumer by bonus, by bingo, by stamps, by anything you can think of, without damage to your price situation, why this is the way you compete primarily because... a price war hurts everybody, and the independent will be the one that is hurt the most. Let me show you an example... my professor told me that price wars got so bad in Los Angeles that the price of milk got down to 1c a quart and the super market across the street put out free milk. When the housewife went to get her free milk they



gave her a penny and told her to go across the street and buy her milk . . . we have price wars . . . when one goes down and the other one has to meet the price and so on down the line. And then you get to the point where they're losing money."

Dr. Winn concluded that in a situation where all marketers are losing money in this type of price competition they reached the common conclusion that they prefer non-price competition rather than price competition. The handful of oil companies which dominate the marketing of gasoline appear to have reached such a conclusion because non-price competition is common whereas active price competition is rare.

Mass advertisers and advertising media promote the myth in the minds of the public that advertising is always price reducing.

Advertising, if accompanied by price competition, tends to be price reducing. However, advertising in a monopolistic industry or in an industry where prices are administered or controlled may be cost increasing.

To the extent that special advertising promotions are cost increasing, the oil companies have to recover such costs and it is the motorist who has to pay.

#### **(5) Contests, Prizes, and Premiums**

A large number of oil company special promotions result in the giving of prizes, premiums or benefits of one kind or another to the motorist. Promotions of this sort include such programs as:

- Take Off With Shell,
- Shell Oil Tumbler Promotion,
- Texaco's "Tempo Tumblers",
- Texaco's "Top of the Morning" china,
- B.A.'s "Musical Showcase",
- B.A.'s "Extra-kick Horsepower",
- "B.A. Lucky Bucks",
- Royalite's "Windfall",
- Imperial's "Movie Time Special",
- Imperial's "All-Out Quality Contest",
- Imperial's "Play Tiger, Tiger, Tiger".

These promotions can be classified in three categories. In the first category are the television programs such as B.A.'s Musical Showcase and Royalite's Windfall which have been continued for months. Such programs are aimed at increasing the company's share of the market by appealing to the segment of the market classed as "brand switchers" and converting occasional shoppers to steady customers. The motorist is automatically entered in the prize contest for every purchase made on his credit card. Motorists can also enter by mailing an entry form to the studio. Many of the prizes are merchandise or services which are contributed by participating manufacturers and suppliers in return for the air-time and promotion of their products. Such programs usually do not require a financial contribution from the service station operators. Where the operator is under no compulsion to contribute toward the cost of a brand name advertising program, usually no problems in the relationships between the dealer and the oil company arise.

The second category of promotion is where the oil company advertises that with each purchase of a designated number of gallons of gasoline the purchaser either becomes entitled to an item of merchandise free or at a price that is below the cost to the operator of the particular item of merchandise.

For instance, an oil company may buy an item of merchandise for 16c. It sells the item of merchandise to the operator at its cost of 16c. The oil company then advertises to customers that the operator will give them this item of merchandise free with the purchase of \$3.50 worth of gasoline which is approximately 8 gallons. If the operator gives away a 16c item for each 8 gallons of gasoline purchased, the effect is that the operator receives 2c less per gallon than his normal markup.

There are many variations of this type of promotion which are adaptable to the price of the merchandise that the customer is intended to receive. If the item of merchandise is more expensive, the program will provide that the motorist can buy the item for a designated price with the purchase of a designated number of gallons of gasoline. Usually with the purchase of \$3.00 or \$3.50 of gasoline the purchaser

becomes entitled to buy merchandise from the operator at 10c to 15c below the cost of the merchandise to the operator. The cost of the merchandise to the operator is usually the oil company's cost which is well below its usual retail price. This together with the operator's contribution of 10c or 15c per item, (representing from 1c to 2c per gallon) provides a bargain which is a real incentive to the motorist. The result is that either the operator alone or the operator together with the motorist pays the entire cost of the merchandise which is given away or sold and the oil company only pays the costs of publicity and promotion.

The third category of promotion includes the games where the motorist receives a coupon or ticket which gives him a chance to win a prize. "Take Off with Shell", "B.A. Lucky Bucks", and Imperial's "Play Tiger, Tiger, Tiger" are items of this sort. In such promotions the motorist receives an envelope or ticket each time he purchases gasoline which in some form or another gives him an opportunity to win a prize. The company requires the service station operator to pay for the envelopes or tickets which he gives away to his customers. The oil company pays the cost of advertising the promotion and providing the prizes, but recovers some of its cost by requiring its operators to pay to obtain the envelopes or tickets to be given to the motorist.

The oil companies stress that no purchase by the motorist is required to obtain such an envelope or ticket and a person wanting to participate simply has to go into a service station of that brand to receive it. This is probably done to avoid Alberta's Code of Fair Competition which forbids retailers to give prizes or premiums to "purchasers". The oil companies reported the prices at which such envelopes or tickets were sold to their dealers and the prices per ticket were usually around 1c although in one case it was as high as 5c.

The oil companies tend to minimize the cost of such a promotion to the operator. For instance if the giveaway ticket costs 1c and the operator gives one to each purchaser who purchases an average of 8 gallons, the oil company says the operator's cost is increased  $\frac{1}{8}$ th of a cent per gallon.

The operator on the other hand says that during a promotion a motorist who is interested in obtaining chances on the prize will make smaller purchases of gasoline and will call much more frequently. The dealer purchases the tickets in sizeable quantities, and if he has too many he considers he may as well use them so he gives them away at the rate of two or three to a customer instead of one. Where a minimum purchase is required dealers report that they are unable to refuse to give a ticket to good customers who request a ticket even if they have purchased less than the minimum.

In all these games of chance the oil companies stress that no purchase is required and any person is entitled to a ticket who simply calls at the station. There are a considerable number of cases where this is done. One operator reported that a school bus stops at his station and during a campaign every passenger wanted a ticket. Another had a policeman who called several times a day and picked up a ticket each time for the duration of campaign.

One oil company confirmed that during a particular campaign it estimated normal purchases of approximately eight gallons per customer dropped to about six gallons per customer. Another oil company reported a similar experience that customers make smaller purchases in order to obtain more cards and chances of winning.

In answer to question 71 the oil companies provided the Committee with a comparison of the cost to the oil company and the cost to the operators collectively of promotional advertising programs.

#### Costs of Advertising Promotions

	Paid by Operators	Paid by Oil Company
Promotion A	\$117,500	\$ 67,462
Promotion B	96,200	50,800
Promotion C	85,000	47,400
Promotion D	50,020	123,600
Promotion E	24,100	94,944
Promotion F	4,575	45,005

The purpose of advertising generally is to promote the sale of the advertised product. The value of advertising accordingly is not normally measured in terms of benefit to customers. Special promotions are only a small part of the advertising program of most oil companies. However, as the special promotions all involve the giving of prizes, premiums or benefits to the motorist, we inquired as to the relationship of the total cost of the special advertising promotion as compared with the benefits received by the motorists.

The oil companies pointed out the difficulties of placing a monetary value on prizes given to winners. One company stated that most of its prizes were supplied free in exchange for on-air promotion. In placing a value on such prizes there is a difference between the manufacturers cost which is not known to the oil company, the distributor price, the suggested list price, and the usual selling price. The value of a prize may differ as between different winners. For instance a trip by air to a holiday resort will differ depending upon the community in which the winner resides. When a purchaser of gasoline is given a free tumbler is the customer benefit measured by the cost of the tumbler to the oil company or by the normal retail price of the tumbler?

A standard advertising program which results in no direct benefit to the customer may cost just as much and be less successful than a promotion which does confer some benefit on customers. Accordingly we consider there is no meaningful relationship between cost of a special program and the prizes or benefit given to customers. Subject to the above, we report for information the total cost of several promotional advertising programs and the reported benefit conferred on customers from each.

“Comparison of Cost and Customer Benefit”  
Special Advertising Promotion

	Total Cost to Oil Company and Operators	Reported Value of Benefit to Customer
Promotion 1	\$173,620	\$36,567
Promotion 2	49,580	4,850
Promotion 3	119,044	33,650
Promotion 4	184,962	90,000
Promotion 5	139,100	85,000
Promotion 6	265,900	96,200

A question in the mind of the Committee was how much permanent advantage is gained by any of the major oil companies from running such special programs alternately. The replies indicated that if one conducted a special program and the others didn't that one might gain a competitive advantage. However, if each company runs one, the customers it lost to others during their special campaigns are regained when it runs its own, thereby maintaining approximately the status quo. One company's reply said in part as follows:

“The special promotions...were planned with the intent of improving market share”...“sales statistics...lead us to the conclusion that our market share improved concurrently with the running of the programs,” “It is unlikely that a permanent increase in market share from a single advertising program can be achieved in a competitive environment. The consumer who was influenced to change his buying habits during (our) advertising program is subject to being influenced by a competitor's advertising once (ours) has stopped...” “Whether or not...the special promotion resulted in a permanent improvement in market share...is difficult to measure.”

The following excerpts were taken from the reply of another company:

“During a period... (the special program) made a significant contribution in sales”...“this program was seriously affected by strong competitive activities of other major oil companies, who introduced service station games, which had a faster payout to the customer”...“A temporary percentage increase in the sale of (premium) was achieved, although total volume of gasoline was affected by strong competitive activities by other majors.”

“During the term of this promotion, a temporary large percentage increase of customers was generated, which offset earlier losses in gallonage.”



Another oil company expressed the opinion that its special promotions helped to increase the number of customers but stated:

"There is some element of defensive action inherent in such programs since they also serve to retain customers who might otherwise be lost to competitors. It is difficult to precisely determine the effect of the campaigns on our share of the retail market toward which the special promotions were directed."

Special advertising programs originate with the oil company, advertise the products of the oil company, and the oil company is responsible for them.

The oil company by its advertising and national publicity tells the motorist about the special promotion and describes the merchandise, ticket, or envelope that all of its brand name dealers will supply. By this advertising the operator is compelled to be a participant. In many promotions the oil company then requires the operator to buy the merchandise, tickets or envelopes that it has described in its advertising. The operator is thereby compelled to assume a substantial portion of the cost.

In some promotions the operator's cost is as high as 2c per gallon, in many it is as high as 1c per gallon and some are less than 1c per gallon. In an above average station the operator's profit per gallon on gasoline sales is 1½c as illustrated in chart 48 and in table 44. In large numbers of stations the profit per gallon is much less. If an advertising program is initiated by the oil company which compels its operators to participate at a cost of from one-half cent to two cents per gallon, this will eliminate the operator's profit in many cases and in some cases will result in a loss per gallon for every gallon sold during the promotion. It is for this reason that the operators are so strongly opposed to certain of these promotions where they are called upon to pay a large amount of the cost.

#### (6) Laws Affecting Advertising Promotions

Service station operators in various jurisdictions have persuaded their local governments to ban or restrict gasoline promotions.

A National Better Business Bureau newsletter of September 1967 reads in part as follows:

"A case in point is the giveaway contests conducted by major oil companies through their dealers and dubbed with such fanciful names as 'Win-a-Check,' 'Sunny Dollars,' 'Money Bags' and 'New Super Money Bags.' The question is whether these promotions violate any state lottery laws.

As disclosed in (National Better Business Bureau) September Service Bulletin, the Ohio Attorney General has ruled that oil company giveaway promotions, among others, violate the state's lottery laws. It thus became the fifth state in which these giveaway games are illegal. The other four are Washington, Wisconsin, Idaho and Kansas."

"A promotional game which requires a participant to go to the premises of a commercial enterprise to obtain a token necessary for participation, **although no purchase is required to obtain the token**, is a scheme of chance and a violation of the lottery statute."

The following news report was carried in the Calgary Herald of March 23, 1968:

"GASOLINE PROMOTIONS BARRED IN MARYLAND ANNAPOLIS, Md. — Tigerama, Sunny Dollars and other gas station promotional games will be barred from Maryland after June 30 under a law enacted Friday by the general assembly. The bill still must be signed by Governor Agnew.

A spokesman for the National Congress of Petroleum Retailers said the legislation was the first of its kind in the nation.

The bill was strongly supported by service station operators who contend that the games cut into their profits and cost the public at least an additional penny a gallon.

For two legislative sessions Maryland gasoline retailers have lobbied and even picketed in an effort to convince the General Assembly that the take-a-card games are costly, inconvenient and sometimes fraudulent."

The State of Massachusetts by Chapter 602 of the 1968 Statutes, enacted a law entitled "An Act Prohibiting the Giving of Chances or The Offering of Prizes by Gasoline Stations." The new Section 6C reads:

"**Section 6C.** No dealer or seller of motor vehicle fuel shall engage in, promote or in any way operate any contest or game by which a person may, as determined by chance, receive gifts, prizes or gratuities in connection with the sale of goods



or services. This section shall apply to any such contest or game whether or not a purchase is required to participate therein. Whoever violates the provisions of this section shall be punished by a fine of not more than two thousand dollars or by imprisonment for not more than one year."

Under the Industry and Development Department Act the government of Alberta enacted Alberta Regulation 406/60 entitled "General Code of Fair Competition and Business Practices in and for the Province of Alberta". Section 3 of that Order-in-Council read (before it was rescinded):

"3. No licensee shall give or offer to give, directly or indirectly, any gift, premium, services, concession, prize or other benefit of any kind or character whatsoever to any person.

- (a) who purchases any goods or service from the licensee, or
- (b) to induce any person to purchase any goods or service from the licensee, or
- (c) for the purpose of furthering the sale of any goods or service by the licensee."

Many of the oil company special promotions must have been very close to being a violation of this Section. In the promotional games where a ticket or envelope is given containing a chance the oil companies stress that any person is entitled to one who goes to a service station and asks for one. Presumably if they are giving it to anyone, rather than just to a person "who purchases" or "to induce any person to purchase" they may be avoiding the express wording of clauses (a) and (b).

#### (7) Recommendations of the Committee

The problem of advertising in various forms is clearly one of the irritants which imposes strains on the relationships between oil companies and their service station operators.

In this connection the Committee makes three recommendations.

**Firstly:** We consider that the lessee or owner of a service station should be free to do such advertising as he sees fit. He should not be under any contractual or other compulsion from the oil company,

- (a) to advertise its name or brand name or its products; or
- (b) restricting his right to advertise anything else.

The operator who buys brand name products for resale should be free to advertise them to such extent as he sees fit, but he should be under no compulsion to advertise them or to advertise them exclusively. The operator should similarly be under no compulsion from the oil company to refrain from advertising anything else he chooses to handle on the premises. The operators should be relieved from performing those provisions of various contracts which obligate them to advertise certain items in certain ways and which restrict them from advertising other merchandise.

**Secondly:** An operator who buys brand name gasoline for resale pays a higher price and one of the advantages that should accrue to him is the advantage of the company's brand name advertising. The off-brander buys gasoline at a cheaper price, and one of the things he does not get is the advantage of the oil company's brand name.

When an oil company initiates and undertakes a special promotion advertising its brand name products, and by the nature of the promotion places its brand name dealers in circumstances which compel them to pay a portion of the cost of the promotion, this creates justifiable resentment on the part of the dealers. The dealer is coerced to participate by circumstances devised by the oil company, the dealer's costs are increased by an amount determined by the oil company, and this additional cost to the dealer can reduce his profits or create a loss.

The Committee recommends that the dealers be freed of any obligation to contribute to the cost of an oil company advertising program advertising its products or brand name, and that oil companies be prohibited from recovering such costs from the operators by the sale of tickets or chances, or by the sale of gifts or premiums that the operator is required to give away, or by the sale of merchandise which the operator is required either to give away or to sell below his cost, or by any other means.

**Thirdly:** It appears that if one company runs a special promotion involving gifts, premiums or giveaways then each of the other companies feels compelled to run a similar program to be competitive and to retain its market share. The oil companies themselves do not claim that they derive any permanent increase in volume or any permanent advantage from the conduct of such special promotions. In the words of one of them

"The consumer who was influenced to change his buying habits during (our) advertising program is subject to being influenced by a competitor's advertising once (ours) has stopped."

Such advertising is cost increasing rather than price reducing and it is the motorist who ultimately has to pay these costs which have to be included in the price of his gasoline.

We accordingly recommend that Alberta follow the lead of states such as Maryland and Massachusetts which have prohibited dealers in gasoline from operating contests or games where motorists receive gifts, prizes or premiums. This appears to be the present intention of our existing Code of Fair Competition in Business Practices passed under the Industry and Development Department Act in which the oil companies appear to have found some loopholes.

## CHAPTER 17. MISCELLANEOUS PROBLEMS

### (1) Shrinkage

The volume of gasoline varies with its temperature. If gasoline is delivered to the dealer and metered into his storage tanks at one temperature and subsequently metered out through his gasoline pumps into his customer's cars at a different temperature, there will be some variation in volume.

The dealer pays the oil company for the volume metered into his tankage and he receives payment from his customers on the basis of the volume metered into their automobiles. Apart from volume differences due to temperatures there may be some volume losses due to spillage and evaporation.

Some dealers think shrinkage losses are significant, and other dealers do not.

Those dealers who complain about shrinkage mentioned two aspects—

- (a) they pay the oil company on the basis of volume delivered, and they receive payment on the basis of volume sold to their customers, so the dealer is responsible for any shrinkage loss which occurs rather than the oil company; and
- (b) the fuel oil tax in theory is collected by the dealer from his customer, remitted by the dealer to the oil company which in turn remits to the government. However the fuel oil tax is paid on the volume delivered into the dealer's storage and not the volume metered into the customers tanks. This means the dealer is paying fuel oil tax on any volume lost through shrinkage.

Although some dealers mention shrinkage, many other dealers consider it to be insignificant. Oil company officials with whom the Committee discussed this problem generally consider the losses to be insignificant and the problem exaggerated.

When tank trucks are filled at the refinery the volume is calculated and corrected for temperature, and billed accordingly. 48% of the total retail volume of Alberta is located in the cities of Edmonton and Calgary within a 30 minute drive of the refinery. The storage of dealers is underground where temperature changes are not as extreme from day to day as they would be in surface storage. The evaporation loss from underground tanks is minimal. Large outlets receive deliveries weekly and some even receive them daily so there frequently is not much volume change either due to temperature fluctuation or to evaporation between time of delivery and time of sale.

Changes in temperature also work both ways. Sometimes there is a volume gain rather than a volume loss.

One major oil company marketer advised us that on an experimental basis in service stations in Toronto, Calgary, and other places in Canada they were taking the responsibility of keeping the underground tanks of their dealers full. In these cases the dealer was not paying for the volume delivered to his storage, rather he was paying for the volume metered through his pumps into the cars of his customers. These dealers don't bear any shrinkage losses and this oil company found that the shrinkage volume was not out of line with their calculations and forecasts.

It seems to the Committee that each dealer could precisely calculate his loss from shrinkage by keeping exact records and comparing delivered volume with volume sold. Most complaints received by the Committee were generalizations not expressed in volumes or percentages and not verified by adequate factual records. The oil companies have encountered cases where a dealer's complaints about shrinkage turned out to be due to a leak in his underground storage.

Unless the complainant produces records indicating a serious loss from shrinkage, the Committee is inclined to the view that it does not pose a significant problem for most operators.



Table 34.

**Shrinkage of Petroleum Fuels — Gravity — Temperature — Volume Relationship**

Fuel Gravity in °A.P.I.	Percentage Gain (+) or Loss (–) to Purchaser with Temperature										
	Gain +					Loss –					
	Temperature in Degrees Fahrenheit										
	0	10	20	30	40	50	60	70	80	90	100
30	+2.56	+2.13	+1.70	+1.28	+0.85	+0.42	0	–0.42	–0.85	–1.27	–1.69
32	+2.61	+2.17	+1.74	+1.30	+0.87	+0.43	0	–0.43	–0.86	–1.30	–1.73
34	+2.66	+2.21	+1.77	+1.33	+0.88	+0.44	0	–0.44	–0.88	–1.32	–1.76
36	+2.71	+2.26	+1.81	+1.36	+0.90	+0.45	0	–0.45	–0.90	–1.35	–1.80
38	+2.77	+2.31	+1.85	+1.39	+0.92	+0.46	0	–0.46	–0.92	–1.38	–1.84
40	+2.84	+2.36	+1.89	+1.42	+0.94	+0.47	0	–0.47	–0.94	–1.42	–1.89
42	+2.91	+2.42	+1.94	+1.45	+0.97	+0.48	0	–0.48	–0.97	–1.45	–1.94
44	+2.98	+2.48	+1.99	+1.49	+0.99	+0.50	0	–0.50	–0.99	–1.49	–1.99
46	+3.06	+2.55	+2.04	+1.53	+1.02	+0.51	0	–0.51	–1.02	–1.53	–2.04
48	+3.14	+2.62	+2.10	+1.57	+1.05	+0.52	0	–0.53	–1.05	–1.58	–2.10
50	+3.23	+2.70	+2.16	+1.62	+1.08	+0.54	0	–0.54	–1.08	–1.62	–2.17
52	+3.32	+2.77	+2.22	+1.66	+1.11	+0.56	0	–0.56	–1.11	–1.67	–2.23
54	+3.42	+2.85	+2.28	+1.71	+1.14	+0.57	0	–0.57	–1.15	–1.72	–2.30
56	+3.52	+2.94	+2.35	+1.77	+1.18	+0.59	0	–0.59	–1.18	–1.78	–2.37
58	+3.62	+3.02	+2.41	+1.81	+1.21	+0.61	0	–0.61	–1.21	–1.82	–2.43
60	+3.70	+3.08	+2.47	+1.85	+1.24	+0.62	0	–0.62	–1.24	–1.87	–2.49
62	+3.78	+3.15	+2.53	+1.90	+1.27	+0.63	0	–0.63	–1.27	–1.91	–2.55
64	+3.86	+3.22	+2.58	+1.94	+1.29	+0.65	0	–0.65	–1.30	–1.95	–2.61
66	+3.95	+3.29	+2.64	+1.98	+1.32	+0.66	0	–0.66	–1.33	–2.00	–2.66
68	+4.03	+3.36	+2.69	+2.02	+1.35	+0.68	0	–0.68	–1.36	–2.04	–2.72
70	+4.11	+3.43	+2.75	+2.06	+1.38	+0.69	0	–0.69	–1.39	–2.08	–2.78
72	+4.19	+3.50	+2.80	+2.11	+1.41	+0.70	0	–0.71	–1.41	–2.13	–2.84
74	+4.27	+3.57	+2.86	+2.15	+1.43	+0.72	0	–0.72	–1.44	–2.17	–2.89
76	+4.35	+3.63	+2.91	+2.19	+1.46	+0.73	0	–0.73	–1.47	–2.21	–2.95
78	+4.44	+3.71	+2.97	+2.23	+1.49	+0.75	0	–0.75	–1.50	–2.25	–3.01
80	+4.52	+3.78	+3.03	+2.27	+1.52	+0.76	0	–0.76	–1.53	–2.30	–3.07

The gravity of gasoline in ° A.P.I. varies with:—

(a) grades of gasoline such as premium and regular; and

(b) seasons and conditions for which it is manufactured.

Winter gasoline is lighter, with higher gravity in ° A.P.I.

Summer gasoline is heavier, with lower gravity in ° A.P.I.

The variation in gravity between summer and winter gasoline in Alberta may be from 2° to 3° A.P.I.

Regular gasoline in 1965 would have an average gravity of approximately 64° A.P.I.

Assuming gasoline with a gravity of 64° A.P.I.

(a) if measured and delivered at 0° and the temperature rose to 60° there would be a 3.86% volume gain;

(b) if measured and delivered at 100° and the temperature dropped to 60° there would be a 2.61% volume loss.

Source: American Society for Testing Materials and the Institute of Petroleum, Petroleum Measurement Tables, 1952. (Summarized data.)

## (2) Early Closing By-Laws

The subject of early closing by-laws is one aspect where the relationship of oil companies and operators frequently seems to come in to conflict.

As a general rule service station operators are in favor of early closing by-laws. Oil companies on the other hand oppose early closing by-laws and frequently take the initiative to have them repealed or to amend them by extending the hours of opening.

The service station operator is most directly affected. If hours are extended, in many cases he would personally expect to be there for the additional hours and he has to face the problem of providing staff for the additional hours.

Oil companies as landlords, and as suppliers of product to the outlets, do not have any direct problems resulting from the extension of service station hours, and they benefit from any additional gallonage that may be sold. It is easy for oil companies to advocate longer hours for operators because it costs the companies nothing and they may increase their gallonage.

Many operators complain that they are under pressure from their oil companies to open longer hours. Some oil company leases specifically provide that the lessee will observe the instructions of the oil company as to the hours during which he will keep the premises open for business. This pressure may exist even when the operator can show that the additional gallonage pumped



during the additional hours of opening is insufficient to pay the salary of the pump attendant to dispense it. The prospect of some additional gallonage outweighs any concern the oil company may have for the financial loss an operator may suffer.

This was one of the prime issues in the notorious MacGregor case in Edmonton where MacGregor's lease was terminated by his oil company following his surrender of a 24 hour permit which the oil company wished him to retain.

The public interest which is the concern of the municipal government is that motorists in the community should be able to obtain gasoline and service for their vehicles at all hours when this may be required.

There are hours at night and other times when there is very little demand for gasoline and vehicle service, when most stations would find it economically advisable to be closed. However, early closing by-laws have been used as a tool, to insure the availability of service during such hours by granting a limited number of permits for extended hours on the condition that the permittee remain open and provide service during designated slack hours. The motorist who requires gasoline or service is thus able to obtain it, and if the business available all goes to a limited number of outlets, it becomes economically practical for those outlets to remain open.

The operator welcomes the existence of an early closing by-law because this assists him in resisting the pressures from the oil company to extend his already long hours even further. If an operator has a 24 hour permit or some similar permit for extended hours, the existence of the by-law limiting the number of such permits helps to insure that there will be enough business available to him to justify his remaining open during the slack hours.

However, each oil company wants operators who market its brand to have what it regards as its brand's proportionate share of any extended hour permits granted. Operators are not anxious to obtain such permits unless they are satisfied that there will be enough business available to bear all costs of the additional hours. An oil company which can't persuade its operators to apply for extended permits or which can't persuade a council to grant its operators additional permits may then institute proceedings for amendment or repeal of the early closing by-laws.

The more stations that are open for the sale of an oil company's brand of gasoline, the more gasoline that company expects to sell to those stations. As the oil company pays none of the costs of operating or staffing service stations it is always in favor of more stations and more hours of opening, whereas the operator is only in favor of opening if his profit on sales will exceed his costs of operating and staffing the premises for the additional hours.

If there are too many service stations this affects all operators because the volume available for each station is reduced. Similarly if under a closing by-law there are too many permits for extended hours this affects all operators who hold such permits by reducing the volume available per station.

In the United States more than twice as many cars per hour wish to buy gasoline on a Saturday or on a Sunday as on any other day of the week, which is illustrated by Chart 41 appearing in the Chapter entitled "Economics of Service Station Operations". Approximately as much gasoline is sold on the weekend as during all the rest of the week combined.

In Alberta the buying pattern is similar, but with fewer cars per hour.

In the City of Edmonton, which is one of Alberta's larger markets, there is a by-law prescribing closing hours for service stations. Under this by-law most stations are open 12 hours daily, but closed on Sunday, which has the peak gasoline volume. However, the Sunday business is also done by the 12 hour stations, but on a system of rotation whereby a limited number of them

are open for business each Sunday. The result is that the very high volume of gasoline sold on a Sunday is sold by a few stations and the volume done by each of them is far in excess of their normal daily gallonage.

The Edmonton by-law provides for some 24 hour stations which are open 24 hours a day except for those hours each Sunday when the 12 hour stations whose turn has come up in rotation are permitted to be open for the sale of gasoline.

The result is that the 24 hour stations in Edmonton do not participate in the Sunday peak period of gasoline sales, and the 12 hour stations in Edmonton only participate in these peak sales on those Sundays when their turn comes up in rotation.

In general the Edmonton by-law has the support of service station operators. In the absence of the by-law the 12 hour stations in Edmonton would probably extend their hours to 15 or 16 hours per day and would be open on Sunday. Under the by-law the 12 hour stations sell a very large volume of gasoline on those Sundays when their turn comes up in rotation. Without the by-law, most outlets would open every Sunday when all other stations would also be open. They would be open additional hours, and would incur additional expense to sell about the same gallonage and earn a smaller profit.

So far as the limited number of 24 hour stations are concerned, they appear to like the by-law which keeps large numbers of their competitors closed for 12 hours a day and the gasoline sales during these hours is shared by relatively few stations. In the absence of the by-law many of their competitors would extend their hours from 12 to 15 or 16, which would reduce the gasoline volume available to those stations which now open 24 hours. Some of the 24 hour stations would reduce their hours to 16 and fewer stations would find it economic to remain open all night. The available night service would be reduced and some areas of a city may have no night service.

There are substantial differences between regulation of store hours generally and regulation of service station hours:

- (a) motor vehicles operate all night long, and it is in the public interest of a progressive community that a reasonable number of service stations should be open all night to provide emergency mechanical service and gasoline for stranded motorists, but there is no comparable public interest in keeping stores open all night long;
- (b) a manufacturer who sells goods to a store doesn't interfere in the merchant's business because the merchant is independent and able to buy from other suppliers, but an oil company which sells gasoline to a service station can and does interfere in the service station operator's business because the operator is "tied" by an exclusive buying contract and other ties which make it impossible for him to deal with any other oil company.
- (c) The merchant operating a store determines his own hours based on his own judgment of what is most profitable for him, but the operator of a service station is afraid to refuse to follow the "suggestion" of his oil company as to hours, even if he loses money by doing so, because oil companies have been known to terminate a tenant's lease, or to decline to supply him with gasoline, if he failed to follow their "suggestions".

By regulating store hours a local government can grant permits for extended hours —

- (a) on condition that an operator will maintain standards of service during the night that the government considers necessary in the public interest; and
- (b) on condition that the operator keep his station open during hours when service is necessary in the public interest but when the operator might otherwise choose to be closed.

Local governments in the public interest encourage businesses operating in their communities by passing laws and regulations to create a business climate that will contribute to their success. A large majority of service station operators, who are local business men, consider that by-laws controlling service station hours help to reduce their expenses and contribute to their success, while at the same time insuring that there are as many stations open during unprofitable night hours as the paramount public interest requires.

The Committee has no doubt that oil companies, in any case where they choose to do so in their own interests, can and do exert a variety of compelling pressures that an operator is powerless to withstand. The operators consider that a municipal by-law protects them from compulsion by the oil company to open more hours than the local government considers necessary in the public interest.

Oil companies advocate that governments should repeal closing by-laws, based on the argument that their operators should enjoy freedom to open when they choose.

Oil companies at the same time put clauses in their contracts depriving their operators of freedom to close when they choose. It is not logical to assume that an oil company, which has tried to persuade a local government to repeal a closing by-law against the wishes of its own operators, will not exert some persuasion on its operators once the by-law is gone.

It appears to be more a question of who will do the controlling, rather than whether the operators will enjoy freedom.

The operators are confident they will receive more consideration from a government concerned with public interests, than they will from oil companies whose overriding concern is the economic one of greater profits from greater volume.





## PART 5

### CONTRACTS AND TIES BINDING THE OPERATOR

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## PART 5

### CONTRACTS AND TIES BINDING THE OPERATOR

#### CHAPTER 18. THE WEB OF TIES

 The operator is hopelessly restricted by a series of ties which bind him to the oil company in an intricate variety of ways.

He is bound to purchase exclusively the petroleum products of his oil company by a franchise agreement or dealership agreement. He is bound to purchase tires, batteries and accessories in accordance with the oil company's direction by reason of directed buying arrangements or full line forcing arrangements. His premises are tied by lease or by mortgage. He is tied from advertising certain products without oil company approval and he is bound to participate in other advertising programs initiated and sponsored by his oil company. Equipment is loaned to him which he is bound to use only for displaying or vending items approved by the oil company. The oil company credit card finances the credit purchases of his customers and can be used only for the purchase of the oil company products or such other things as it may authorize. Due to these numerous ties he has virtually no freedom or independence in the conduct of his business. He is constantly mindful that the oil company can deprive him of his business premises and equipment, or cut off his supply of products for sale, or otherwise put him out of business so he regards the slightest "suggestion" from his oil company as a virtual command.

The operator hoped to become an "independent businessman" but finds he has become a puppet implementing every policy of the oil company to which he is tied, even when some of such policies cause him financial loss.

The number of contracts that an oil company may have with an operator varies from outlet to outlet and depends partly on the type of ownership and operation of the outlet.

The basic agreement which exists with almost every outlet is usually called a Dealer Sale Agreement or a Dealer Franchise Agreement or some similar name. This binds the operator to continuously and exclusively purchase the petroleum products of the oil company.

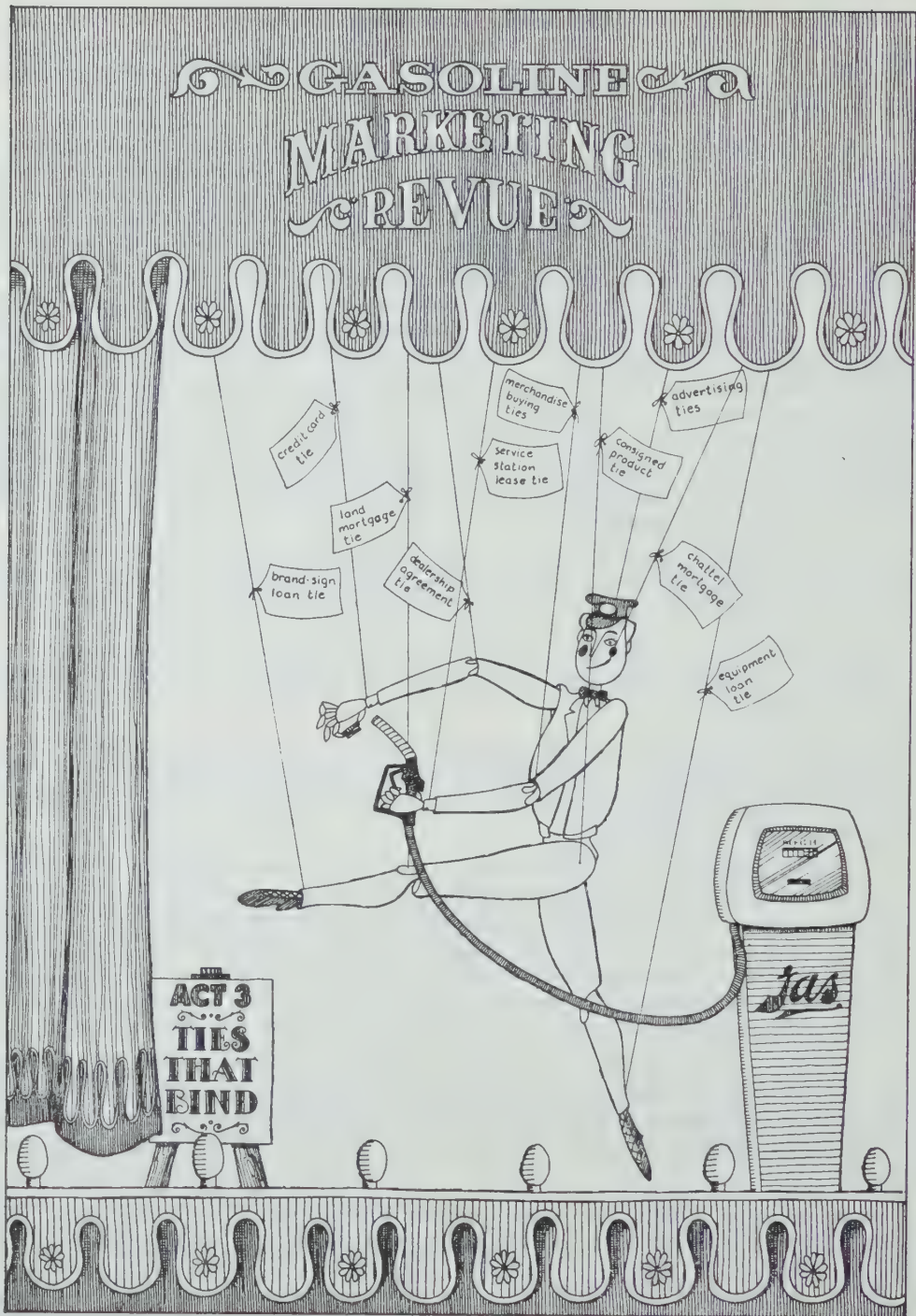
If the operator leases the service station there is in addition a lease which usually reinforces the dealer sale agreement. The lease usually contains a clause that the operator as a tenant will not use the premises to sell any petroleum products or other merchandise except those supplied by the oil company or approved by the oil company. The lease may contain clauses dealing with a variety of other matters such as the hours during which the business will be kept open, the stock-in-trade to be carried, the advertising that is permitted or not permitted, etc.

If the operator is the owner of the premises but has borrowed money from the oil company for the purpose of improving his service station, the mortgage may contain provisions similar to the lease relating to continuously and exclusively purchasing petroleum products, the advertising that may or may not be displayed, etc.

In addition to the dealership agreement and the lease or the mortgage, there are a number of other contracts which may be entered into in any kind of outlet whether leased or owned.

In many cases oil companies supply operators with tanks, pumps, equipment for displaying merchandise, and other equipment. If these items are sold under a conditional sale agreement, the agreement usually contains a restrictive clause that the dealer will use the equipment exclusively for the vending of the oil company's products.

CHART 32



In some cases such equipment is loaned under an "equipment loan agreement" which binds the operator to use the equipment solely and continuously for the sale, display, storage or dispensing of the oil company's products.

Outside most service stations a large brand sign is erected on a pole. In many cases the dealer enters into an agreement known as a "sign agreement" under which he agrees that the sign shall not be removed and that he will not permit any other sign or advertising to be affixed to the pole, and he agrees to return the sign to the oil company on demand.

There may be a contract for tires and tubes under which the operator agrees to purchase from the oil company or from some source designated by the oil company, the operator's total requirements of tires and tubes for sale on the premises. There may be similar agreements relating to batteries and to other items of merchandise.

An oil company may loan money to an operator or extend credit to an operator under a loan agreement which usually contains a clause that the operator will sell and maintain a stock of merchandise and products of the oil company. In the case of long term loans or mortgages, repayable by installments, frequently the final installment cannot be repaid before a specified date and until then the operator is required to sell the oil company's products.

A loan or mortgage may be contingent on an undertaking from the operator to extend or renew his retail dealer's sales agreement.

Various agreements contain a clause to the effect that the oil company may erect and keep such advertising signs on or in the premises as it deems advisable and the owner will not permit any other signs on the premises without the written consent of the oil company.

In addition to all of these written contracts there are verbal contracts which both the oil company and the operator acknowledge to exist and observe in practice. For instance, in the written contracts between one company and its operators there was no express provision relating to advertising. However, the Committee was informed both by operators of that company's service stations and by representatives of the company that the operators are bound by a verbal contract under which all advertising on the premises is subject to the company's approval.

Many contracts are terminable by the oil company either on very short notice or immediately on default. Many contracts are also tied together so that a breach of one contract between the parties is grounds for the termination of another contract or contracts between the parties. For instance a breach of the dealership agreement might be grounds for termination of the lease, or a breach of an equipment loan agreement may be grounds for termination of the dealer franchise agreement and the lease.

The oil company contracts are carefully thought out by the best legal brains that money can buy. They are based on years of experience in marketing in numerous countries and cover every possible contingency.

The operator on the other hand is a man with limited financial resources, limited education, and not skilled in the interpretation of the covenants and implications of the legal documents he may be asked to sign. When the oil company sales representative calls, the operator is accustomed to signing orders and receipts for products. When the sales representative at the same time asks him to "sign here" for some equipment being loaned to him he may do so either without reading the fine print, or without fully understanding it. Many documents signed in such careless fashion by an unsophisticated operator may contain unexpected provisions about the quantities of stock he must carry, or the hours he must remain open or restricting him from advertising, or defining circumstances entitling the oil company to terminate his lease or dealer agreement.



The operator finds himself enmeshed in a web of ties which are binding on him and which frustrate and restrict him at every turn in the conduct of his business.

In the opinion of the Committee these ties are oppressive and unconscionable in their application.

The result of this web of ties is that Imperial has several hundred outlets to which it has the exclusive right to sell, B.A. and Royalite have several hundred outlets to which they have the exclusive right to sell, Shell has several hundred outlets to which it has the exclusive right to sell and Texaco has several hundred outlets to which it has the exclusive right to sell.

The system has effectively carved up the market so that each of these companies is assured of selling the total requirement of the group of outlets which are tied to that company. Their collective share of the market is over 88%.

Other marketers have no alternative but to follow in the same pattern so they use similar ties to bind outlets to continuously and exclusively buy from them.

As a result over 3,000 of the retail outlets are tied to marketing a particular brand of gasoline and are bound not to purchase any other brand. Less than 100 outlets of relatively small volume are completely independent and free to buy where they choose.

Once an outlet is "tied" it is difficult, costly, and time consuming to sever all the ties. The various contracts which bind the outlet terminate on different dates. When one contract containing ties comes up for renewal there are two or three others which still have time to run and which also bind the outlet. In these circumstances the operator has almost no bargaining power. If he doesn't renew his expiring dealership agreement containing an exclusive purchase provision, (with a view to buying the products of some other company) he would be violating the provisions of his existing lease requiring him to purchase exclusively and would be faced with the loss of his lease and his business. With two or three contracts with overlapping terms he can never effectively terminate one without violating the provisions of others which continue in force.

In the case of lessees who are 38% of the outlets and account for 62% of the retail volume there is no realistic possibility whatever that the outlet could be used for the sale of products other than those of the company owning the outlet.

In the case of owners financed who are 13% of the outlets, they are bound to purchase exclusively for the life of the mortgage which is a lengthy number of years. Before a mortgage is fully paid out further renovation and modernization may be desirable which may result in a new mortgage. There is frequently an option to purchase in the mortgage or other documents, or a right of first refusal on sale which enables the oil company to acquire the outlet if it wishes to do so. While a mortgage containing a clause requiring the outlet to exclusively purchase the products of one oil company remains in force, it is improbable that any other oil company would buy.

Owners not financed are 40% of the outlets but account for only 18% of volume. Most of them are classified as other businesses with some gasoline sales. This group would have the greatest ability to switch brands, but even they are tied with dealership agreements with exclusive purchase provisions which run for as long as five years and there may be other overlapping contracts such as equipment loan agreements, etc. Although individual outlets in this group may have some ability to switch brands as their long-term contracts expire, the group as a whole is fairly effectively tied and there is no possibility of a company suddenly losing a large percentage of this volume due to a price cut by a competitive marketer, or some similar attraction.

The procedure followed by "Cartel" brand companies to tie retail outlets by contract is not peculiar to Alberta, and appears to be employed world wide.

For instance in a case in the House of Lords in Great Britain in 1967 between Esso Petroleum Company Limited and Harper's Garage (Stourport) Limited, Lord Morris in delivering his judgment stated . . . "At the time of the hearing before the learned Judge, out of 36,000 'outlets' in the United Kingdom at which a motorist could buy motor fuels nearly 35,000 were subject to solus agreements. Of the 35,000 over 6,600 were with Esso." The "solus agreements" appear to be similar to the dealership agreements used in Alberta and under the Esso "solus agreement" the operator agrees to sell at his service station "Esso Petrol and no other".

The following excerpt is taken from the report of The Monopolies Commission in Great Britain—

"The Commission has studied several hundred different forms of contract between suppliers and retailers."

"Such complicated selling arrangements for a standard product appear to be not only unnecessary but also harmful. The system as a whole tends to be unfair to the small man who has neither the time nor the expertise to understand the complications of some of the legal documents."

Some contracts and restrictive agreements which are acceptable in other retail businesses because they are freely competitive and not monopolistic, have very different results when used in gasoline retailing. If a member of the "Cartel" group declines to supply gasoline to a service station the other members appear to do likewise in some cases, and there may be no other available source of supply that is economically possible.

In a normal situation

- (a) where a landlord differs with his tenant, the tenant has no fear that his wholesaler will refuse to supply him with merchandise;
- (b) if a retailer is not interested in buying some item from his wholesaler he does not expect that his landlord will terminate his lease;
- (c) if a retailer has a difference with one supplier other suppliers will normally deal on different terms and are desirous of supplying him.

However, an oil company landlord which encounters difficulty in negotiating with its tenant can put him out of business by declining to supply him with merchandise. Similarly an oil company wholesaler which is having difficulty selling its product to a service station operator can put him out of business by terminating his lease and replacing him with a new tenant who will buy the merchandise with less argument about price, quality or service.

It is obvious that there is a much greater measure of security and freedom for a tenant or for a merchant if the roles of landlord and wholesaler are not combined in one company.

When the oil company is a member of a monopolistic group which practically controls the world's refining and export crude, the retailer either has to accept the oil company terms or go out of business because other "cartel" companies may not supply him at all, and will only supply him on similar terms.

The Report of the Restrictive Trade Practices Commission on "An Inquiry Into the Distribution and Sale of Automotive Oils, Greases, Anti-freeze, Additives, Tires, Batteries, Accessories and Related Products", under the Combines Investigation Act — 1962, published many of the restrictive clauses contained in various oil company contracts. These clauses are in common use in Alberta and were found in the contracts of all companies the Committee examined, as supplied to us by both the oil companies and their dealers.

The nature and extent of the restrictive clauses is best illustrated by the following extracts from some contracts in use by the major oil companies operating in Alberta. The contracts of other integrated companies and wholesalers follow the same pattern, and have similar provisions.

## CHAPTER 19. TERMS OF CONTRACTS

### (1) The British American Oil Company Limited Contract Ties

In 1965 B.A. had a total of 514 retail outlets in Alberta. Of these, 3 were operated by B.A. employees, 167 were operated by lessees from B.A. (including 17 lessees under cross-leases) and 344 were operated by owners of service stations, 88 of whom borrowed money from B.A. which debt was secured by a land mortgage on the station (excluding 17 land mortgages where cross-leases were also taken as security).

#### 1. Equipment Loan and Retail Dealer Sales Agreement

B.A. uses an Equipment Loan and Retail Dealer Sales Agreement [B.A., M-SD 139 (6-65)] containing an exclusive dealing provision, which provides that the dealer will:

“... continuously and exclusively, by himself or his agents or tenants, purchase, sell, advertise, trade and deal in the particular kinds, grades and brands of products marketed by the Company ...”

and by the same clause the dealer further agrees that:

“... no petroleum products other than those of the Company will be used, stored, sold or otherwise dealt in, on or about the above named premises or any other premises leased, owned or controlled by the Dealer within one mile of the said premises ...”

(clause 4, page 1)

The dealer is prevented from using his equipment and the facilities for other than B.A.'s products:

“The Dealer agrees to provide and maintain without cost to the Company on the above named premises equipment and facilities for the storage, display, sale and delivery of the petroleum products hereinbefore mentioned and agrees that the said equipment and facilities during the term of this agreement will be used exclusively for the handling of products purchased from the Company.”

(clause 6, page 1)

The Agreement grants to B.A. an option to purchase or lease the service station on the same basis as any bona fide offer to purchase or lease received by the dealer from any third party (clause 8, page 2).

Itemized equipment is loaned by B.A. to the dealer on the following conditions (inter alia):

“The Dealer estimates his annual requirements of gasolines at ..... gallons and the said equipment is loaned to the Dealer on this representation. If, in the Company's opinion, the Dealer's actual purchases of petroleum products in any contract year do not warrant the amount or type of equipment loaned the Company shall have the right to remove such part of the equipment loaned, as, in its opinion, is not required by the Dealer.”

(clause 9(f), page 2)

The equipment loaned would be limited to the use of B.A. products by virtue of clause 6 already discussed. B.A. has the right to take possession of any of the equipment without notice, upon default by the dealer in performing any of the provisions of the Agreement, and no other provision for termination on default is made in the Agreement.

The Agreement is for a 10-year period and renews automatically for one-year periods unless terminated by 90 days written notice prior to the expiration of the then current term.

#### 2. Leased Premises

The Service Station Lease [B.A., M-SD (1-61)] used by B.A. restricts the use to be made of the premises, the dealer agreeing to:

“... use the demised premises for the conduct of a filling and service station, and for garage repairs if the demised premises include garage repair facilities, and, unless herein otherwise expressly authorized for no other purpose; ...”

(clause 7, page 1)



B.A. has sole control over advertising on the demised premises:

"... he (the dealer) will indicate by signs, notices and such other methods as are satisfactory to B.A. that he is the sole proprietor of the business carried on on the demised premises ..."

(clause 7, page 1)

"B.A. may erect and maintain such advertising signs on the demised premises as it deems advisable, and the Tenant will not erect or permit to be erected or to remain on the said premises any other signs or advertising except with the written consent of B.A."

(clause 10, page 2)

The former provision appears to be an attempt by B.A. to absolve itself from being regarded as the owner of the business and the attendant responsibilities accompanying ownership.

The Lease does not contain an express exclusive dealing provision, however, the dealer is required to:

"... execute B.A.'s Equipment Loan and/or Retail Dealer Sales Agreement and Consigned Stock Agreement (if required) and further agrees to observe and perform all the terms and conditions thereof ..."

(clause 7(f), page 2)

and by the same clause it is provided that:

"A breach of the terms of the Equipment Loan and/or Retail Dealer Sales Agreement or Consigned Stock Agreement aforesaid shall constitute a breach of the terms of this Lease. It is understood, however, that the aforesaid Equipment Loan and/or Retail Dealer Sales Agreement, Consigned Stock Agreement and any other agreements between the Parties hereto are separate agreements and form no part of this Lease."

Provision for termination of the Lease is made as follows:

"It is distinctly understood and agreed that, upon breach or non-performance of any covenant, agreement, proviso or condition in this lease, B.A. may, at its option, terminate this lease forthwith and re-enter upon the demised premises and repossess the same and thereafter have and enjoy them as fully as if this agreement had never been made."

(clause 8, page 2)

"IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT B.A. shall have the right to terminate this lease ... at any time ... upon giving the Tenant thirty (30) days notice in writing ... notwithstanding anything to the contrary contained in this lease or in any Equipment Loan and/or Retail Dealer Sales Agreement or in any other agreement between B.A. and the Tenant ..."

(clause 6, page 1)

Under the former provision B.A. can terminate without giving notice to the dealer. The dealer has no corresponding rights of termination as contained in clauses 6 and 8.

### **3. Mortgaged Outlets (Owners Financed)**

The land mortgage provided by B.A. with its returns does not contain any exclusive dealing provisions or advertising restrictions. The form provided by B.A. is a standard form (short form) commonly used in Alberta and can be purchased from any stationer in Alberta which supplies legal forms.

In addition to the land mortgage B.A. takes from the financed owner the Retail Dealer Sales Agreement previously discussed and an Agreement for Loan dealt with under section 5 hereof.

### **4. Owners of Service Stations Operating Brand Outlets (Owners Not Financed)**

With owned outlets B.A. uses the Retail Dealer Sales Agreement previously studied in section 1.



## **5. Sundry Agreements and Contracts**

### **(a) Conditional Sale Agreement**

B.A. uses a Conditional Sale Agreement [B.A., M-SD 20 (Rev. 6-62)] when equipment is purchased by the dealer from B.A. on an installment basis. The Agreement limits the use of the equipment to the vending of B.A.'s products and contains exclusive dealing provisions:

"... Purchaser will use the said equipment exclusively for the vending of the Company's products and will deal in gasoline, refined oil, lubricating oils and greases and petroleum products generally purchased from the Company exclusively, and the Purchaser will not, ... directly or indirectly, within one mile of the premises ... deal in or handle any of such products purchased from any other person, firm or corporation."

(clause 4, page 1)

"The Purchaser will ... use the said equipment for the carrying on of business of \_\_\_\_\_, properly equipped and supplied with adequate stocks of merchandise, and will keep open for business during normal business hours, and will purchase from the Company exclusively all gasolines, refined oil, lubricating oils and greases and petroleum products generally, required for the carrying on of the said business."

(clause 5, page 1)

The amount secured by the Agreement is paid in specified installments over a specified period of time. The Agreement provides that there is no right of prepayment.

If the dealer defaults in complying with the terms and conditions of the Agreement, B.A. may declare the full amount of the contract immediately due and payable. B.A. also has the option of taking possession of the equipment in such a case, retaining or reselling the equipment, applying the net proceeds against the balance owing and then proceeding against the dealer for any deficiency between the balance owing and the net sale proceeds. Any payments made prior to default are retained by B.A. as rental for the equipment.

### **(b) Equipment Loan Agreement**

When equipment is loaned by B.A. to the dealer an Equipment Loan Agreement [B.A., M-SD 70 (Rev. 1-64)] is used. The dealer is required to:

"... use the said equipment solely, actively and continuously in the storage, handling, advertising and sale of the products sold by the Company and for no other purpose ..."

(clause 4, page 2)

The dealer can return the equipment at any time and B.A. can retake possession of the equipment at any time. There is no term and no default provisions.

### **(c) Dealer Improvements Credit Plan (Dealer's Application — Agreement)**

A dealer who wishes to improve his service station premises and is financially unable to do so as long as he is required to immediately pay B.A. for products purchased may enter into a Dealer Improvements Credit Plan [B.A., M-SD 159 (9-60)]. Under the Agreement B.A. grants to the dealer credit accommodation in the form of merchandise to be paid for by the dealer at a certain rate over a period of time, rather than immediately. The Agreement provides that:

"In consideration of your undertaking to extend this credit accommodation to me/us, I/we hereby undertake to execute an Agreement extending or renewing my/our present exclusive Retail Dealer Sales Agreement for a further period of \_\_\_\_\_ years."

The dealer grants to B.A. an installment promissory note for the amount of the credit accommodation and possibly additional security.

**(d) Agreement for Loan**

B.A. utilizes an Agreement for Loan [B.A., S.D. 68 (Rev. 1-60)] where it loans money to a dealer who owns the service station. The Agreement is taken in addition to the agreements previously discussed in part 3 (mortgaged outlets). Under the Agreement the dealer is required to:

“... carry on, or cause to be carried on, continuously, on the garage premises the business of a garageman and dealer in petroleum products in a proper and efficient manner, and will keep, or cause to be kept on the garage premises at all times, a proper stock of the merchandise and products ...”

(clause 4, page 2)

and by the same clause advertising on the premises rests solely with B.A.:

“... The Company may erect and keep such advertising signs and gasoline vending devices or pumps on such premises as it may deem advisable, and the Owner will keep same, or cause same to be kept, in good repair and condition, and will not erect or permit to be erected on said premises, any other signs and gasoline vending devices or pumps except with the written consent of the Company.”

The Agreement contains the following exclusive dealing provision:

“... The Owner will, during the term of this agreement, continuously and exclusively purchase, or cause to be purchased, from the Company, and from no other, all gasolines, lubricating oils, greases and petroleum products generally and anti-freeze compounds which shall be used, handled, sold or kept for sale on the garage premises, and the Owner will purchase or cause to be purchased directly from the Company, and from no other, any product (including but not limited to tires, tubes, tire accessories, batteries and auto accessories) in addition to petroleum products and anti-freeze compounds which are saleable on the garage premises and which may, from time to time, be offered for sale or distributed by the Company, and also during the said term, the Owner will not purchase, receive, sell, offer to sell, deal in, handle, keep in stock or dispose of, either directly or indirectly, or permit to be purchased, received, sold, dealt in, handled or disposed of, on or about the garage premises or on or about any other lands and premises within a radius of two miles thereof owned, leased, occupied or used by the Owner, any petroleum products or other merchandise and products hereinbefore mentioned in this paragraph, except such as shall have been manufactured or distributed by or purchased from the Company, the intention being that as to all such products and merchandise hereinbefore mentioned, the Owner shall purchase the same directly from the Company exclusively and from no other person, firm or corporation whatsoever, it being hereby expressly declared that the foregoing covenant on the part of the Owner is one of the main considerations for the execution by the Company of this agreement and the Company's agreement herein to make said advance or loan, without which the Company's agreement to make such advance or loan would not have taken place or have been made. ...”

(clause 1, page 1)

As security for the repayment of the loan the dealer is required to grant to B.A. a first mortgage on the garage premises and a first chattel mortgage on all plant, machinery, tools and equipment, in a form satisfactory to B.A. (clause 8, page 2).

The loan is to be repaid by specified installments over a specified period of time, but can be repaid in whole or in part at any time without notice or bonus, except for a final sum of \$100 which cannot be repaid before a specified date (clause 8, page 2).

B.A. is granted an option to purchase or lease the premises on the same terms and conditions as any bona fide offer to purchase or lease received by the dealer from any third party, should the dealer wish to accept such offer.

B.A.'s rights on the dealer's default is provided for as follows:

“In the event of the Owner ceasing to operate the garage premises and carry on business thereon as a dealer in petroleum products, either through his default or from any other cause whatsoever, ... or in the event of any breach or default in the observance or performance of any of the covenants, agreements and conditions herein contained, and on the occurrence of any of the foregoing and in addition

to all other remedies and notwithstanding any agreements to the contrary, the balance of the said indebtedness by the said Mortgage secured then outstanding, owing and unpaid, shall, at the sole option of the Company, forthwith be and become due and payable, and the Company shall thereupon be entitled, in addition to its other rights and remedies (all of which are hereby expressly reserved), to exercise all its rights and remedies whether by foreclosure, sale, or otherwise, howsoever, and may further, at its option . . . forthwith enter, occupy, lease and use the said lands and buildings and all plant, machinery tools and equipment situated thereon for its own purposes, without any charge therefor or liability as Mortgagee in possession or otherwise to the Owner."

(clause 13, page 3)

#### (e) Gasoline Consignment Plan Agreement

The Gasoline Consignment Plan Agreement [B.A., M-SD 186 (11-60)] used by B.A. covers gasoline only supplied by B.A. to the dealer. By the terms of the Agreement the property in the gasoline remains in B.A. until sold by the dealer in the regular course of his business. The consigned gasoline is sold by the dealer only at prices authorized by B.A. The dealer is remunerated by way of a commission on the gasoline sold.

It would appear that the Consignment Agreement is usually taken where there is already in existence a dealer sale agreement between the parties. The Consignment Agreement provides that:

"All agreements between the Company and the Dealer whereby Dealer agrees to purchase gasoline from the Company are suspended for the duration of this agreement insofar as (but only to the extent that) they relate to the purchase of gasoline from the Company by the Dealer; upon termination of this agreement the provisions which have been suspended accordingly shall be automatically revived."

(clause 3, page 1)

and the same clause contains an exclusive dealing provision:

"... It is understood, however, that the Company has and continues to have the exclusive right to the sale of its gasolines through Dealer's Service Station and Dealer covenants and agrees not to handle any other gasolines."

The Consignment Agreement would usually be taken where there is a Retail Dealer Sales Agreement and Lease in the case of lessee operator outlets, a Retail Dealer Sales Agreement and Agreement for Loan in the case of owner financed outlets and a Retail Dealer Sales Agreement in the case of non-financed owner outlets. All of the latter agreements contain exclusive dealing provisions, and advertising limitations. The Consignment Agreement does not contain any advertising limitations but such omission is overcome by the presence of such a limitation in each of the accompanying agreements.

To protect itself from being regarded as the principal or employer of the dealer, since the property in the gasoline remains in B.A. until sold, and being liable for the debts incurred in the operation of the station, B.A. employs the following provisions in the Agreement:

"Dealer agrees to continue to operate the remainder of his service station or garage business in the usual way and for his own account and to pay rent, business and other taxes, and other charges in connection therewith, and the Company is to be in no way responsible therefor."

(clause 4, page 2)

"... The Dealer ... will himself be solely responsible for all costs, charges and expenses in connection with the operation of his service station including those arising from or connected with the sale of the Company's gasoline through his service station."

(clause 9, page 1)

The Agreement may be terminated by either party immediately upon written notice.



**(f) B-A Sentinel Tire Consignment Stock Agreement**

Under the **B-A Sentinel Tire Consignment Stock Agreement** [B.A., M-T B.A. 15 (12-61)] property in the tires supplied by B.A. to the dealer remains in B.A. until sold by the dealer. The dealer is paid commission on the sale of such tires. There is no exclusive dealing provision or advertising limitations contained in the Agreement. The Agreement continues in force until terminated by either party in writing, provided that B.A. can terminate at any time without notice.

**(g) Service Station Consignment Stock Agreement**

The Service Station Consignment Stock Agreement [B.A., SD 101 (6-57)] covers petroleum products and other merchandise supplied by B.A. to the dealer and is on the same terms and conditions as contained in the B-A Sentinel Tire Consignment Stock Agreement previously discussed.

**(h) Contract for B-A T.B.A. Products**

The Contract for B-A T.B.A. Products [B.A., M-TBA 2 (1-65)] contains the following exclusive dealing provisions:

"... the Purchaser agrees to purchase from the Vendor ... Purchaser's total requirements of B-A Sentinel tires and tubes, B-A batteries and all automobile accessories sold and/or distributed by ... (B.A.) ..."

(clause 1, page 1)

"The Purchaser will actively engage in the sale and distribution of B-A T.B.A. Products, and will purchase from the Vendor and keep on hand at all times during the life of this contract a reasonable stock of B-A T.B.A. Products, and will use his best efforts to sell and promote the sale of B-A T.B.A. Products."

(clause 2, page 1)

The Agreement contains the following advertising restrictions:

"Upon termination of this Agreement Purchaser agrees on demand to remove and return to Vendor all signs furnished by the Vendor, and to remove all painted signs at its place of business or otherwise displaying the name British American or any of the Vendor's trade marks or trade names ... Purchaser agrees to first submit to the Vendor for its approval or correction samples of all signs and other advertising matter which Purchaser proposes to use in advertising B-A T.B.A. Products."

(clause 6, page 1)

The Agreement is for a term commencing from the date of the Agreement to the end of the calendar year, and renews automatically for yearly periods thereafter unless terminated by either party on 30 days' written notice prior to the expiration of the then current term.

**(i) Plastic Sign Lease**

The Plastic Sign Lease [B.A., S.D. 170 (2-58)] utilized by the Company provides that the dealer will:

"... use the said signs and devices solely, exclusively and continuously in the advertising of the products sold by the LESSOR."

(clause 1, page 1)

The Agreement is for yearly periods and can be terminated by either party upon giving 30 days notice in writing prior to the end of the then current term. B.A. may immediately terminate, without notice, should the dealer cease to purchase the petroleum products of B.A. or default under any of the other terms of the Agreement.

**(j) Imprinter Agreement**

An Imprinter Agreement [B.A., M-410 (7-66)] is used by B.A. when it loans an Imprinter to the dealer. The Dealer is required to:

"... use the said Imprinter solely, exclusively and continuously in recording credit sales of the products sold by the Lender and for no other purpose and to retain it at the said premises until returned to the Lender."

(clause 1, page 1)



The Agreement may be terminated by the dealer at any time on 30 days notice in writing and can be terminated by B.A. at any time without notice. Should the dealer cease to sell the petroleum products of B.A. or default in any of the other terms of the Agreement B.A. can immediately repossess the Imprinter and terminate the Agreement.

### **(k) Chattel Mortgage**

The Chattel Mortgage (B.A., L-2874) taken by B.A. as security for any loan made by B.A. to the dealer contains the following provision:

"That if the Mortgagor . . . ceases to handle, use, sell and deal in petroleum products of the Mortgagee in a manner satisfactory to the Mortgagee or if the Mortgagor's contract for the purchase of petroleum products from the Mortgagee in connection with the business aforesaid is terminated for any reason whatsoever, . . ."

(clause 6, page 2)

the balance remaining owing under the mortgage is due and payable immediately, or, alternatively, B.A. has the option to purchase the chattels from the dealer at a specified rate.

The Mortgage further provides that if the dealer fails to observe or perform any of the terms of the mortgage, the balance secured shall immediately become due and payable.

The mortgage contains no limitation on advertising and contains no exclusive dealing provision other than that implied in clause 6 dealt with previously.

## **(2) Royalite Oil Company Limited Contract Ties**

In 1965 Royalite had a total of 536 retail outlets in Alberta. Of these, 5 were operated by Royalite employees, 277 were operated by lessees from Royalite and 254 were operated by owners of service stations, 74 of whom borrowed money from Royalite which debt was secured by a land mortgage on the station.

### **1. Dealer Sale Agreement**

The Dealer Sale Agreement (Royalite, M-3) used by Royalite with its lessee operated outlets and its owner operated outlets, both financed and non-financed, contains the following exclusive dealing provision:

"The Purchaser covenants and agrees that . . . he will, continuously and exclusively, . . . purchase, sell, advertise, trade and deal in the particular kinds, grades and brands of products marketed by the Seller . . . and further covenants and agrees that . . . no petroleum products other than those of the Seller will be used, stored, sold or otherwise dealt in, on or about the above named premises . . ."

(clause 6, page 2)

and by the same clause the dealer agrees not to handle within one mile of the service station petroleum products other than those of Royalite.

The dealer further agrees to:

". . . provide and maintain without cost to the Seller . . . equipment and facilities for the storage, display, sale and delivery of the petroleum products hereinbefore mentioned and agrees that the said equipment and the facilities . . . will be used exclusively for the handling of products purchased from the Seller."

(clause 8, page 2)

The dealer also agrees not to sell, lease or otherwise dispose of the service station without first offering it to Royalite on the same terms and conditions as any bona fide offer received from a third party, which offer the dealer desires to accept, and Royalite is granted an option to purchase or lease the station on the same terms and conditions.

Provision for termination of the Agreement is made as follows:

"In the event of a breach of the Purchaser's undertaking as set out in Clause Six (6) hereof, the Seller may at its option terminate this Agreement forthwith without notice . . ."

(clause 7, page 2)

and provision is made for Royalite recovering damages from the dealer in such an event. Further provision for termination is made as follows:

“ . . . the Seller may terminate this Agreement forthwith by written notice upon failure of the Purchaser to perform strictly any of the obligations upon such party hereby.”

(clause 13, page 2)

## 2. Leased Outlets

Royalite uses two forms of lease for its lessee operated outlets, one being a sublease.

### (a) Lease

The Service Station Lease (Royalite, M-7) restricts the use to be made of the premises, the lessee undertaking to:

“ . . . diligently use the demised premises for the purpose of carrying on the business of a service station and such other business that Royalite in writing permits . . . ”

(clause 3, page 1)

and by the same clause the lessee agrees not to:

“ . . . sell or deal in thereon any gasolines, diesel fuel, lubricating oils or greases or other petroleum products or tires, tubes, batteries, antifreeze or accessories or other products other than those supplied by or nominated by Royalite . . . ”

The following clause as to control of the business by Royalite has restrictive implications:

“The Lessee shall conduct the filling and service station business on the demised premises and use the demised premises in accordance with the instructions of Royalite issued from time to time and in particular without restricting the generality of the foregoing with respect to: Standards of service and courtesy to the public; neatness and general appearance of the demised premises and attendants; hours during which the demised premises are open for business; and completeness and sufficiency of stock-in-trade carried . . . ”

(clause 7, page 2)

The lessee further agrees not to:

“ . . . install or permit to be installed on the demised premises during the term of this Lease or any renewal thereof any signs or placards without the prior written approval of Royalite in each instance first having been obtained . . . ”

(clause 8, page 2)

Provision for termination of the Lease is made as follows:

“ . . . it is expressly understood and agreed that this Lease . . . may be terminated at any time by either Royalite or the Lessee upon Thirty (30) days notice in writing given by either party to the other . . . ”

(para 2, page 1)

“That upon breach or non-performance of any covenant, agreement, proviso or condition in this Lease, Royalite may, at its option, terminate this Lease forthwith and re-enter upon the demised premises and repossess the same and thereafter have and enjoy them as fully as if this agreement had never been made.”

(clause 14, page 2)

Under the latter provision Royalite may terminate without giving notice to the lessee. Further provision for termination is made as follows:

“ . . . or in case the demised premises become vacant or unoccupied or are unused for the purposes of a service station for a period of one business day . . . the Lessee will, upon request, surrender up quiet and peaceably possession of the demised premises to Royalite and Royalite may re-enter upon the demised premises and thereafter have and enjoy them as if this agreement had never been made . . . ”

(clause 15, page 2)

**(b) Sublease**

The Sublease (Royalite, M 373) used by Royalite contains the following exclusive dealing provision:

"That the Sublessee . . . shall . . . continuously and exclusively purchase or cause to be purchased, from the Sublessor and from no other, all gasolines, lubricating oils, greases and petroleum products generally, which shall be used, handled, sold or kept for sale at, upon or from the demised premises, and the Sublessee shall purchase or cause to be purchased from the Sublessor, and from no other, any products and merchandise (including, but not limited to tires, tubes, tire accessories, batteries and auto accessories) in addition to petroleum products which are saleable on or from the demised premises and which may from time to time be offered for sale, distributed, sponsored or otherwise dealt in by the Sublessor . . ."

(section I(h), page 2)

and by the same provision the sublessee further agrees not to:

". . . purchase, receive, sell, offer to sell, deal in, handle, keep in stock or dispose of, either directly or indirectly, or permit to be purchased, received, sold, dealt in, handled or disposed of, on, about or from the demised premises any of the said products, except such as shall have been manufactured or distributed by or purchased from the Sublessor, the intention being that as to all the said products, the Sublessee . . . shall purchase the same from the Sublessor exclusively and from no other person . . ."

and further:

". . . it being expressly declared that the covenant on the part of the Sublessee contained in this Paragraph (h) is one of the main considerations for the Sublessor executing this Sublease (or entering into an Agreement for Sale of even date herewith pursuant to which the Sublessor has agreed to sell the demised premises to the Sublessee) and without such covenant on the part of the Sublessee the execution of this Sublease and the granting of the said loan (or the said Agreement for Sale) by the Sublessor, would not have occurred or have taken place."

The Sublease contains the following provision as to advertising:

"That the Sublessor shall be expressly entitled to erect, keep or install at, upon or about the demised premises such advertising signs or billboards and such vending devices or pumps as the Sublessor in the exercise of its sole discretion may decide and, in addition thereto, the Sublessor shall have the right exercisable at any time and from time to time to paint the service station building according to its own specifications and in a colour or colours of its own choice."

(section I(i), page 2)

Provision for termination of the Sublease is made as follows:

". . . in case of the breach, non-observance or non-performance of any of the covenants, provisos or conditions . . . which on the part of the Sublessee ought to be observed or performed, and such breach, non-observance or non-performance continuing for a period of thirty (30) days after receipt by the Sublessee of notice from the Sublessor specifying the nature thereof and requiring the same to be remedied . . . it shall be lawful for the Sublessor . . . without notice to the Sublessee, into and upon the demised premises . . . to re-enter and the same to have again, repossess and enjoy . . ."

(section 3(a), page 2)

The Sublease is used by Royalite exclusively in cross-lease arrangements where the service station is either owned by the sublessee or is being purchased by the sublessee from Royalite. Where the station is already owned by the sublessee the cross-lease is taken as further security for a loan made by Royalite to the sublessee. Where the sublessee is purchasing the station from Royalite the cross-lease is taken as security for the balance of the purchase price.

Under the cross-lease arrangement the dealer leases the premises to Royalite under the terms of a head lease and Royalite then sublets the premises to the dealer by the Sublease for the identical term of the head lease less one day.



### **3. Mortgaged Outlets (Owner Financed)**

The land mortgage form provided by Royalite does not contain any exclusive dealing provisions or advertising restrictions. The form provided is a short form mortgage used in Alberta and can be purchased at most stationers providing legal forms.

### **4. Owners of Service Stations Operating Brand Outlets (Owners not financed)**

With owned outlets Royalite uses the Dealer Sales Agreement studied in section 1.

### **5. Sundry Agreements and Contracts**

#### **(a) Conditional Sale Agreement**

Royalite utilizes a Conditional Sale Agreement (Royalite, M387) when equipment is sold by it to the dealer. The Agreement provides that there is no right of prepayment and limits the use of the equipment to the vending of Royalite's products. The dealer agrees that he will:

"... use the said equipment exclusively for the vending of the Company's products ..."

(clause 4, page 2)

and the same clause contains an exclusive dealing provision whereby the dealer agrees to:

"... deal in gasoline, refined oil, lubricating oils, and greases and petroleum products generally purchased from the Company exclusively, and the Purchaser will not ... in any way directly or indirectly, within one mile of the premises ... sell, deal in or handle any of such products purchased from any other person, firm or corporation."

The Agreement contains a further exclusive dealing provision whereby the dealer agrees to:

"... use the said equipment for the carrying on of business of ..., properly equipped and supplied with adequate stocks of merchandise, and will keep open for business during normal business hours, and will purchase from the Company exclusively all gasolines, refined oil, lubricating oils and greases and petroleum products generally, required for the carrying on of the said business."

(clause 5, page 2)

Should the dealer default in his obligations Royalite may declare the balance owing due and payable, or, re-take possession of the equipment, retain or sell the equipment, apply the net sale proceeds against the balance owing and proceed against the dealer for any deficiency. Any payments made prior to default are retained by Royalite as rental for the equipment. (clauses 6, 9 and 10, page 2).

#### **(b) Equipment Loan Agreement**

The Equipment Loan Agreement (Royalite, M-98) used by Royalite where equipment is loaned by it to the dealer contains the following limitation on the use of the equipment:

"The customer shall use the said equipment, on any part thereof solely, actively and continuously in the storage of product. Supplied by the Company and shall purchase a minimum of 1,000 gals. of product per fuel year."

(clause 3, page 1)

The above provision appears to have some typographical errors in the form of contract supplied by Royalite. The Agreement further provides that:

"The Company may ... enter upon the said premises for the purposes of ... marking or re-marking the said equipment to identify it as its property or to advertise the products supplied or designated by the Company. The Customer shall not change the coloring or design marked upon the said equipment or any part thereof without consent in writing of the Company."

(clause 4, page 1)

Royalite may re-take possession of the equipment at any time, and the dealer is obligated to return the equipment to Royalite upon its request. The Agreement does not specify any term and no provision is made for the dealer paying rent for the equipment.

### **(c) Sign Agreement**

The Royalite Sign Agreement [Royalite, M-375 (8-65)] employed by Royalite contains the following advertisement restriction:

"The Dealer shall not affix or permit to be affixed to the sign or pole, any other sign, placard or other advertising except with the written consent of the Company."  
(clause 6, page 2)

The dealer further agrees not to:

". . . cause or permit the sign . . . to be removed from the premises whereon the same is installed by the Company . . ."  
(clause 7, page 2)

Although the Agreement is for specified term it provides that:

"Notwithstanding anything herein contained, the Dealer agrees to return the sign to the Company on demand . . ."  
(clause 10, page 3)

### **(d) Contract for Tires and Tubes**

The Contract for Tires and Tubes (Royalite, M-379) utilized by Royalite contains the following exclusive dealing provisions:

". . . the Purchaser agrees to purchase from the Vendor . . . Purchaser's total requirements of Tires and Tubes sold and/or distributed by . . . (the Company)"  
(clause 1, page 1)

and further:

"The Purchaser will actively engage in the sale and distribution of Tires and Tubes and will purchase from the Vendor and keep on hand at all times during the life of this contract a reasonable stock of Tires and Tubes, and will use his best efforts to sell and promote their sale."  
(clause 2, page 1)

The following advertising limitation has restrictive implications:

"The Purchaser agrees to first submit to the Vendor for its approval or correction, samples of all signs and other advertising matter which Purchaser proposes to use in advertising Tires and Tubes . . ."  
(clause 7, page 3)

The Agreement is in force for a period from the date of execution to the end of the calendar year and thereafter automatically for one year periods unless written notice of termination is given by either party 30 days prior to the end of the then current term. The Agreement contains no provision for termination on the dealer's default.

### **(e) Contract for Accessory Merchandise**

The Contract for Accessory Merchandise (Royalite, M-394) used by Royalite contains the same exclusive dealing provision and advertising limitation as contained in the Contract for Tires and Tubes already discussed. The term of the Agreement is on the same basis as that of the Contract for Tires and Tubes with the identical right of termination.

### **(f) Chattel Mortgage**

The chattel mortgage form provided by Royalite does not contain any exclusive dealing provisions or advertisement restrictions. The form provided is a standard form that can be purchased at any stationer supplying legal forms.

### **(g) Product Supply Agreement**

In its returns Royalite cited an exclusive dealing provision from a Product Supply Agreement. Royalite states that it does not have a standard form of such an Agreement and that the terms of such Agreement usually vary from case to case. The exclusive dealing provision cited by Royalite in its returns is as follows:

"The Purchaser, . . . shall during the term of this Agreement continuously and exclusively purchase, or cause to be purchased, from the Company and from no other, all gasolines, lubricating oils, greases and petroleum products generally, which shall be used, handled, sold or kept for sale on the said lands, and the Purchaser shall purchase, or cause to be purchased from the Company, and from no other, and products (including, but not limited to tires, tubes, tires accessories, batteries and auto accessories) in addition to petroleum products which are saleable on the said lands and which may from time to time be offered for sale, distributed, sponsored or otherwise dealt in by the Company, and also during the said term the Purchaser . . . shall not purchase, receive, sell, offer to sell, deal in, handle, keep in stock or dispose of, either directly or indirectly, or permit to be purchased, received, sold, dealt in, handled or disposed of, on or about the said lands or on or about any other lands and premises within a radius of Three (3) miles thereof owned, leased, occupied or used by the Purchaser, any petroleum products or other merchandise and products hereinbefore mentioned . . . except such as shall have been manufactured or distributed by or purchased from the Company, the intention being that as to all such products and merchandise, the Purchaser . . . shall purchase the same from the Company exclusively and from no other person, firm or corporation whatsoever . . ."

The above provision further provides that:

". . . the foregoing covenant on the part of the Purchaser is one of the main considerations for the execution by the Company of an Agreement for the Sale to the Purchaser of the said lands, without which the Company's agreement to sell the said lands would not have taken place or have been made."

The Company's returns do not indicate in what circumstances such an agreement is taken. The above exclusive dealing provision appears to be taken from an agreement accompanying a sale of a service station by Royalite to a dealer.

### **(3) Texaco Canada Limited Contract Ties**

In 1965 Texaco had a total of 368 retail outlets in Alberta. Of these 222 were operated by lessees from the company (including 77 lessees under cross-leases) and 146 were operated by owners of service stations, 35 of whom borrowed money from Texaco which debt was secured by a land mortgage on the station (excluding 77 land mortgages where cross-leases were also taken as security).

#### **1. Dealer Sale Agreement**

Texaco uses a Dealer Sale Agreement [Texaco, S-207D (1-66)] with regard to its:

- (a) Lessee operated outlets;
- (b) Owner operated outlets financed by Texaco;  
and
- (c) Owner operated outlets not financed by Texaco.

The Agreement provides that the dealer:

". . . buys and agrees to receive and pay for purchaser's entire requirements for retail sale . . . all petroleum and anti-freeze products and such other products as seller markets to the retail dealer trade . . ."

(Clause 1, page 1)

The Agreement further provides that as consideration for Texaco supplying to the dealer his total requirements of petroleum, anti-freeze and other products the dealer agrees to:

". . . advertise, purchase, sell, trade and deal in such products of seller continuously and exclusively . . ."

(Clause 8, page 1)



The dealer further agrees not to:

“ . . . sell products purchased from others under the trade mark or trade name of seller, unless seller shall, after analysis thereof, give special consent in writing . . . ”  
(para. 9, page 2)

and by the same paragraph the dealer is allowed to use Texaco's trade marks and trade names to identify and advertise Texaco products, on the condition that he will follow directions from Texaco as to the manner of use of the trade marks and trade names.

Texaco does not itself sell tires, batteries and accessories; and such products are sold by its dealers by and through arrangements or agreements between the dealers and the suppliers of such products and, apart from outlets which are mortgaged to the company, the company does not “require” the purchase of such TBA products although it does “recommend” to the dealer the products of various suppliers.

The Agreement is for a five year period and automatically renews for further five year periods, unless terminated by either party on 90 days written notice prior to the end of the period then current.

The Agreement may be terminated immediately on written notice by either party upon default of the other in performance of the Agreement. The Agreement further provides that if it covers deliveries at premises leased by Texaco to the dealer, and the lease on the premises is terminated or cancelled, the Agreement is automatically terminated.

## **2. Leased Outlets**

In addition to the Dealer Sale Agreement, discussed under paragraph 1, taken by Texaco in respect to its lessee operated outlets two forms of lease are used by Texaco.

### **(a) Short Term Lease**

The Short Term Lease [Texaco, G-77-C (1064) R] is for a term of one year and automatically renews for further one year periods unless terminated under the provisions for termination contained in the Lease. The Lease does not contain in itself any exclusive dealing provisions. However, the Lease does restrict the use to be made of the premises:

“Lessee shall use the said premises and the buildings, improvements and facilities thereon primarily for the operation of a gasoline service station and the sale of automobile accessories . . . ”

(Clause 4, page 3)

The following clause as to advertising has restrictive implications:

“The Lessee shall not install or permit to be installed on the premises or in or on the buildings situated on the premises herein leased, during the term of this lease, or any renewal thereof, any signs or placards, without first having secured the written approval of the Lessor . . . ”

(Clause 9, page 3)

Provision for termination of the Lease is made as follows:

“ . . . the Lessor and the Lessee mutually covenant and agree . . . that the said lease . . . may be terminated, at any time . . . by either party upon 30 days written notice to the other; . . . ”

(para. 2, page 2)

and:

“ . . . or if there be default, breach or non-observance by the Lessee at any time in respect of any covenant, proviso, condition or reservation herein contained which on the part of the Lessee ought to be observed or performed, then the Lessor or its agents may re-enter the said premises and thereafter have, possess and enjoy them as if this lease had not been made; and such right of re-entry shall become exercisable immediately upon such default or breach . . . ”

(clause 14, page 4)

Under the second provision Texaco may terminate without giving notice to the lessee.

Provision for termination of the Lease is also found in the Application for Loan Agreement dealt with later. Under the latter Agreement if the dealer defaults in repaying the loan obtained from Texaco the company at its option can terminate the Lease.

### **(b) Long Term Lease**

The Long Term Lease [Texaco, G-77C (LTL) (4-65)] utilized by Texaco contains the same limitations with respect to use of the premises and advertising (clauses 4 and 10, page 2) as contained in clauses 4 and 9 cited of the Short Term Lease. Unlike the Short Term Lease, the Long Term Lease does contain restrictive dealing provisions:

“ . . . the Lessee, will . . . purchase or cause to be purchased exclusively from the Lessor all petroleum products, and anti-freezes as are sold by the Lessor . . . on the terms of a sale agreement . . . made between the Lessor and the Lessee, or any sale agreement between the Lessor and the Lessee from time to time in force in substitution therefor; and that the Lessee will not during the said term either directly or indirectly use, buy, receive, sell, dispose of, or otherwise deal in or permit to be used, bought, received, sold, disposed of, or otherwise dealt in any petroleum products and anti-freezes in, on, or out of, or about the said premises other than those purchased from the Lessor except as and to the extent that the Lessor shall consent thereto in writing . . . ”

(clause 5, page 2)

The above clause specifically incorporates the terms of any Dealer Sale Agreement between Texaco and the lessee by requiring the lessee to purchase all his petroleum products and anti-freezes on the terms of any sale agreement in existence at the time. If the lessee breaches any of the terms of the Dealer Sale Agreement he automatically breaches clause 5 of the Lease and becomes subject to the termination provisions in the Lease.

Provision for termination due to the lessee's default appears in the Long Term Lease (clause 15, page 4) and is the same as that cited above (clause 14) of the Short Term Lease. The Long Term Lease contains no provision for termination by either party on 30 days written notice as contained in the Short Term Lease.

Provision for termination of the Long Term Lease is also found in the Application for Loan Agreement dealt with in section 5.

The Long Term Lease is for a specific term less one day and is used by Texaco on cross-lease arrangements where the premises are leased by the owner to Texaco under the terms of a Head Lease and subleased by Texaco to the owner by the Long Term Lease. The Head Lease [Texaco, G-77 (5-63) A.W.] used by Texaco in conjunction with the Long Term Lease provides that, in addition to Texaco leasing the premises from the owner, Texaco has the option to purchase the premises on the same terms and at the same price as any bona fide offer received by the owner. Texaco is also granted an option to extend the term of the Head Lease or, alternatively, to lease the premises, after the expiration of the then current term, upon the same terms and conditions as any bona fide offer to lease that the owner may have received.

### **3. Mortgaged Outlets (Owners financed)**

Texaco uses a land mortgage and what it refers to as a “standard trading agreement” on owner operated outlets financed by Texaco. Neither the land mortgage or standard trading agreement were provided with Texaco's returns. In its returns Texaco states that the standard trading agreement requires the dealer for a fixed period or until repayment of all monies owing under the land mortgage, whichever is longer, to:

“ . . . purchase from the . . . (Company) exclusively and continuously, all gasoline, oils, greases and anti-freezes and will purchase exclusively such tires, tubes and batteries as are designated by the . . . (Company) for sale or use on and in con-

junction with the (mortgaged) premises . . . and will not during the said period purchase any gasoline, oils, greases and anti-freezes, tires, tubes and batteries for sale or use . . . from any person, firm or corporation other than . . . (the Company) except with the authorization in writing of the . . . (Company)."

Although Texaco does not itself sell tires, batteries and accessories the dealer is obligated under the above provision to purchase all his TBA products from suppliers which are designated by Texaco. No reason was given by Texaco as to why a financed owner must purchase TBA products from designated suppliers while his brother dealers, owners not financed by Texaco and lessee operators, are not "required" to purchase their TBA products from designated sources.

Texaco also states that the standard trading agreement provides that:

" . . . the mortgagor agrees also that . . . he will, during the said period of time, display no other signs or advertisements of gasoline, oils, greases and antifreezes, tires, tubes and batteries than those furnished by . . . (Company) or its nominee without its approval"

Texaco also states that the land mortgage contains an identical advertisement restriction as contained in the standard trading agreement.

#### **4. Owners of Service Stations Operating Brand Outlets (Owners not Financed)**

With owned outlets Texaco uses the Dealer Sale Agreement studied in section 1.

#### **5. Sundry Agreements and Contracts (a) Conditional Sale Agreement**

Texaco utilizes a Conditional Sale Agreement [Texaco, S-344-R-Western] when equipment is purchased by the dealer from Texaco. The Agreement limits the use of the equipment to the storage and dispensation of Texaco's petroleum products. The dealer agrees that he will:

" . . . use the said property continuously and without interruption and exclusively for the purpose of storing and distributing the petroleum products which may be sold or furnished him by the seller . . ."

(clause 11, page 2)

If the dealer defaults in complying with the terms and conditions of the contract or if Texaco "deems the property in danger of misuse" the full amount of the contract is immediately due and payable. Texaco also has the option of taking possession of the equipment in such a case, retain or resell the equipment, apply the net sale proceeds against the balance owing and then proceed against the dealer for any deficiency between the balance owing and the net sale proceeds.

#### **(b) Equipment Loan Agreement**

The Equipment Loan Agreement [Texaco, S-101 (4-65)] utilized by Texaco provides that:

"The Company's products solely shall be dispensed through the Company's equipment and no similar equipment belonging to other companies shall be installed on the premises during the term of this agreement without the consent of the Company first obtained in writing."

(clause 4, page 2)

The dealer further agrees to:

" . . . purchase exclusively from the Company during the period of loan, all his requirements of . . ."

(clause 3, page 2)

and the kind of products to be purchased by the dealer is presumably designated by Texaco in the space provided.

The following clause appears to have some restrictive implications:

"During the term of this agreement the Company shall be entitled to adopt whatever means it deems advisable to mark and identify the equipment as its property



and for the purpose of applying a trade mark and for advertising its products to be dispensed therefrom."

(Clause 9, page 2)

The Agreement is subject to immediate termination by Texaco, without notice, on any default by the dealer in fulfilling any terms of the Agreement.

### **(c) Application for Loan Agreement**

On a loan made by Texaco to the dealer an Application for Loan Agreement [Texaco, S-453 (5-64)] is made use of by Texaco. The Agreement appears to be utilized in regard to dealers who are lessees of Texaco.

The Agreement provides that the dealer is to use the proceeds of the loan:

"... solely in the conduct of business at the above mentioned service station . . ."

(para. 2, page 1)

which station is either held under lease or to be held under lease by the dealer from Texaco. The dealer also agrees to execute in favour of Texaco a promissory note for the amount of the loan plus a service charge (being an interest factor). The dealer further agrees that:

"... in the event the Lease Agreement Form G-77C referred to above, or any renewal thereof, is terminated or cancelled, then the unpaid balance of the loan shall become immediately due and payable, and in the event of any default in payment of any of the installments of said note, you may at your option terminate said lease."

(last para., page 1)

### **(d) Gasoline Consignment Agreement**

The Gasoline Consignment Agreement (Texaco, S-456) used by Texaco covers gasoline only supplied by Texaco to the dealer. By the terms of the Agreement the property in the gasoline remains in Texaco until sold by the dealer in the regular course of his business. The consigned gasoline is sold by the dealer only at prices authorized by Texaco. The dealer is remunerated by way of commission on the gasoline sold.

It would appear that the Consignment Agreement may be taken where a Dealer Sale Agreement is already in existence. The Consignment Agreement provides that:

"To the extent only by which the terms hereof are inconsistent or at variance with the terms and conditions of a certain sales agreement . . . between the parties . . . this agreement shall, until its termination, control, but said sales agreement shall, in all other respects remain in force and effect and such of its terms and provisions as are inconsistent or at variance herewith shall be effective immediately and automatically upon the expiration or termination of this agreement . . ."

(clause 9, page 2)

The dealer agrees not to:

"... sell gasoline of others under the trade mark or brands of consignor and shall not mix or adulterate consignor's gasoline in any way or with gasolines of others . . ."

(clause 12, page 3)

The Consignment Agreement does not contain any express exclusive dealing provisions but since the Dealer Sale Agreement is used by Texaco with its lessee outlets and owner outlets, financed and non-financed, the absence of such a provision in the Consignment Agreement is overcome by the presence of such a provision in the existing Dealer Sale Agreement.

In lessee outlets the exclusive dealing provisions contained in the Long Term Lease overcomes the absence of such a provision in the Consignment Agreement.

In regard to mortgaged outlets (owners financed) the exclusive dealing provision contained in the standard trading agreement overcomes the absence of such a provision in the Consignment Agreement.

The Consignment Agreement accompanies a Lease and Dealer Sale Agreement in the case of lessee outlets, a Dealer Sale Agreement in the case of owner outlets (non-financed) and a standard trading agreement and land mortgage in the case of owner outlets (financed). All of the latter agreements contain advertising restrictions and any signs and placards on the station are subject to Texaco's approval. Clause 12 previously cited of the Consignment Agreement effects an exclusive dealing provision as, under the other agreements in existence between Texaco and the dealer, the only signs and placards allowed on the station premises will be signs and placards advertising Texaco's products.

Under the Consignment Agreement the property and the gasoline remains in Texaco and the dealer is paid a commission, and accordingly Texaco could be regarded as either the principal or the employer of the dealer. To protect itself from this risk, and the attendant responsibilities of a principal or employer, Texaco employs the following provision in the Consignment Agreement:

"It is understood and agreed that in carrying out this Consignment Agreement Consignee is engaged in his own business; that he shall have sole and exclusive supervision, direction and control of the hiring, discharge, wages, hours and working conditions of all assistants and employees required by him in the performance of his obligations hereunder and shall assume and be solely responsible for all costs and expenses incident to said business and his activities hereunder, including but not limited to taxes or charges imposed thereon or measured by the wages of Consignee's employees."

(clause 8, page 2)

### **(e) Chattel Mortgage**

The Chattel Mortgage Form provided by Texaco does not contain any exclusive dealing provisions or advertising limitations.

## **(4) Imperial Oil Limited Contract Ties**

In 1965 Imperial had a total of 801 retail outlets in Alberta. Of these, 168 were operated by lessees from Imperial (including 6 leases under cross-leases and 11 leases where Imperial owned the land and the dealer owned the building) and 633 were operated by owners of service stations, 111 of whom borrowed money from Imperial which debt was secured by a land mortgage on the station.

### **1. Dealer Franchise Agreement**

Two forms of Dealer Franchise Agreement are used by Imperial.

#### **(a) Dealer Franchise Agreement (Imperial, 1S-760/1)**

The Agreement contains the following exclusive dealing provisions:

"... Dealer agrees to purchase from Imperial at the premises all of Dealer's requirements of such petroleum products as may be sold by Imperial to the retail dealer trade ..."

(clause 2, page 1)

"... Dealer agrees ... that no petroleum products other than those offered for sale by Imperial shall be kept, sold or otherwise dealt in ... (the premises)."

(clause 7, page 2)

Although the Agreement does not expressly limit advertising on the premises to the advertising of Imperial's products the following provision may accomplish the same purpose:

"For the protection of Imperial's name and trade marks Dealer agrees not to do or suffer to be done anything to endanger the same; ..."

(Clause 7, page 2)

Under the Agreement Imperial may also supply equipment on the premises for the dealers use.

In schedule "A" the dealer,—

"... consents to the reservation of title to the equipment described above by Imperial Oil Limited and to the installation and removal of the equipment by Imperial Oil

Limited at any time without notice and hereby waives all rights he may have in respect of the equipment”.

The dealer also agrees,—

“... in the event of termination of this Agreement, dealer shall forthwith deliver up to Imperial the equipment and shall cease to use (it).

(clause 13, page 2)

The Agreement is for a specified term, and automatically renews for 5 year periods unless terminated by 90 days written notice by either party prior to the expiration of the then current term. If the service station is being leased by the dealer from Imperial the Agreement may, at Imperial’s option, be terminated on the termination or cancellation of the lease of the premises.

The Agreement provides that should either party default in its obligations the other may cancel the Agreement on 7 days written notice.

### **(b) Dealer Franchise Agreement [Imperial, 1-A-759 (COSS)]**

The Agreement is used by Imperial with its owned service stations, which are being operated by lessees of Imperial. The Agreement is substantially the same as the Franchise Agreement previously discussed. The dealer agrees to:

“... purchase from Imperial at the premises all of Dealer’s requirements of gasoline, motor oil and such other petroleum products as may be sold by Imperial to the retail dealer trade ...”

(clause 2, page 1)

“... Dealer agrees ... that no petroleum products other than those offered for sale by Imperial shall be kept, sold or otherwise dealt in on the premises without written approval by Imperial.”

(clause 7, page 2)

The Agreement contains the same clause as to protection of Imperial’s name and trade marks as contained in the previous Franchise Agreement.

Imperial may also supply equipment to the dealer for use on the premises.

The term of the Agreement runs concurrently with the term of the lease of the premises between Imperial as lessor and the dealer as lessee. There is no provision for termination on default contained in the Agreement.

## **2. Leased Premises**

The Service Station Lease (Imperial, CLP/4/64) does not contain an express exclusive dealing provision. However, the Lease provides that:

“... in case of the breach or non-performance of any of the covenants or agreements herein contained on the part of the Lessee, or if the Lessee ... shall fail to operate the service station for the sale of the Lessor’s petroleum products ... the Lessor ... may ... take possession of the premises ... and the said term shall forthwith become forfeited and determined.”

The Lease contains no provisions as to advertising on the demised premises.

## **3. Mortgaged Outlets (Owners Financed)**

The Land Mortgage (Imperial, Mtg. 1-66-1) used by Imperial contains the following exclusive dealing provision:

“The Mortgagor being presently engaged or intending to engage in the sale and distribution of petroleum products of the Mortgagee and being desirous with the moneys advanced to him hereunder of improving the business operation of the lands and premises herein described covenants and agrees with the Mortgagee that so long as any moneys are outstanding under this mortgage or any extension thereof and in any event for a period up to and including the \_\_\_\_\_ the lands and premises herein shall be used primarily for the purpose of a garage and/or service station and insofar as petroleum products are concerned for the sale and handling of and dealing in of the petroleum products of the Mortgagee as and when the same shall be offered for sale by the Mortgagee to the dealer trade and that the Mortgagor will purchase from the Mortgagee exclusively and no other all such petroleum products which may be sold or otherwise dealt with on or about the lands and premises herein, ...”

(page 3, final para.)



The Mortgagor (dealer) can prepay, after 5 years, all of the balance owing except for a final sum of \$200 which cannot be paid before a specified date.

There are no advertising restrictions contained in the Mortgage. If the Mortgagor defaults in complying with his covenants the balance secured by the Mortgage becomes due and payable immediately.

#### **4. Owners of Service Stations Operating Brand Outlets (Owners Not Financed)**

With owner outlets Imperial uses the Dealer Franchise Agreement previously discussed in section 1 (a).

#### **5. Sundry Agreements and Contracts**

##### **(a) Conditional Sale Agreement**

The Conditional Sale Agreement (Imperial, 3 S-373/3) used by Imperial when it sells equipment to the dealer on an installment basis limits the use to be made of the equipment:

“... the said equipment and every part thereof shall be used only for storing, retaining, supplying and/or delivering petroleum products supplied and sold to the Purchaser by the Company . . .”

(clause 2, page 1)

The Agreement provides that should the dealer default on any of his obligations under the Agreement Imperial may declare the unpaid balance payable immediately, take possession of and sell the equipment and apply the net sale proceeds against the balance owing and proceed against the dealer for any deficiency, or, alternatively, take possession of and retain the equipment and retain all payments made as liquidated damages.

##### **(b) Agreement for Consignment of Atlas Tires**

Under the Agreement for Consignment of Atlas Tires (Imperial, 1S-119 11/65) property in the tires supplied by Imperial to the dealer remains in Imperial until sold by the dealer to the customer. The dealer is paid a commission on the sale of such tires. There is no exclusive dealing provision in the Agreement and no advertising limitations. The Agreement is for one year and yearly thereafter but may be terminated at any time by either party on 10 days written notice.

##### **(c) Retail Commission Dealer Agreement**

Under the Retail Commission Dealer Agreement (Imperial, PRS-3-79/3) used by Imperial it appoints the dealer:

“... its agent for the sale at the service station of gasoline and such other products as Imperial shall determine from time to time (hereinafter called the ‘consigned products’), and the Dealer hereby accepts such appointment . . .”

(clause 1, page 2)

Title to all consigned products remains in Imperial until sold by the dealer, at which time title passes to the customer. The products are sold at retail prices fixed and determined by Imperial and the dealer is paid a commission on products sold.

The Agreement contains the following exclusive dealing provisions:

“The Dealer agrees that he will not during the term of this Agreement advertise, handle, deal in, distribute or sell (either as principal or agent) any petroleum product not sold or manufactured by Imperial.”

(clause 27, page 7)

“The Dealer will not without the written consent of Imperial carry on, on the premises, any business other than the sale of the consigned products, other products and accessories usually sold at service stations and not handled by the Dealer as agent, and the provision of services usually rendered by a service station.”

(clause 28, page 7)

The Agreement contains the following limitation on advertising on or about the service station premises:

"Imperial may erect and maintain such advertising signs on the premises as it deems advisable and the Dealer will not erect or permit to be erected or to remain on the service station premises any other signs or advertising except with the written consent of Imperial"

(clause 11, pages 3 and 4)

The following clauses have restrictive implications:

"The Dealer shall have the right to purchase and resell for his own account other products and accessories usually sold at service stations, and perform for his own account the services usually rendered at service stations. Imperial, however, has the right to refuse to allow the Dealer to offer for sale certain other products and accessories to which Imperial may reasonably object . . ."

(clause 5, page 3)

"The Dealer agrees to conduct a first class service station business upon the premises; . . . and to comply with all instructions of Imperial as to standards of service and operation."

(clause 17, page 5)

In an attempt to absolve itself of the attendant responsibilities of a principal or employer the following provisions are used:

"The Dealer agrees that the personnel whom he engages to operate the service station shall be his own employees, subject to his control and direction, and for whose acts and omissions, and any losses or damages resulting therefrom, the Dealer shall be fully responsible."

(clause 20, page 5)

"It is expressly understood and agreed that the Dealer will carry on his business pursuant to this Agreement as an independent contractor in the pursuit of an independent calling and not as an employee or servant of Imperial. It is further agreed that the Dealer's authority as agent of Imperial is strictly limited to the sale of the consigned products at prices authorized by Imperial . . . and that the Dealer has no other authority whatsoever as agent of Imperial."

(clause 31, pages 7 and 8)

The Agreement is for a specified term but:

"Either party may terminate this agreement at any time by giving 10 days prior written notice to the other party."

(clause 32, page 8)

Should the dealer default in his obligations under the Agreement Imperial is entitled to terminate the agreement immediately without notice (clause 33, page 8).

Upon the expiration or termination of the Agreement the dealer is required to vacate the service station premises covered in the Agreement, return to Imperial all consigned products unsold, and return to Imperial all of its property and equipment which may have been loaned to the dealer.

## **(5) Shell Canada Limited Contract Ties**

In 1965 Shell had a total of 534 retail outlets in Alberta. Of these, 273 were operated by lessees from Shell and 261 were operated by owners of service stations, 95 of whom borrowed money from Shell which debt was secured by a land mortgage on the station.

### **1. Dealer Sales Contracts**

Shell uses two types of Dealer Sales Contracts.

#### **(a) Dealer Sales Contract**

The Dealer Sales Contract (Shell, 1908 Rev. 6/65) does not contain any express exclusive dealing provisions. However the following clause has restrictive implications:

". . . Dealer will not sell or offer for sale under Seller's trade marks, trade names or color scheme, any products other than those purchased hereunder, nor any mixture or adulteration of any product purchased hereunder with any other product or

material . . . All signs and other advertising devices, heretofore or hereafter furnished by seller to Dealer, . . . shall be used solely in connection with Dealer's sale of products purchased hereunder . . ."

(clause 5, page 1)

Under the Contract Shell loans to the dealer various specified equipment. There is no provision limiting the use of the equipment to the handling of Shell's products.

The Contract is for a specified term and yearly thereafter and can be terminated by either party on 30 days notice prior to the end of the then current period.

Provision for termination is made as follows:

"If Dealer breaches any of the provisions of this contract, or if Dealer defaults in the payment of any indebtedness to Seller, whether under this contract or otherwise, . . . Seller may by notice forthwith . . . terminate this contract . . ."

(clause 10, page 2)

### **(b) Dealer Sales Agreements**

The Dealer Sales Agreement (Shell, 2001 Rev. 3/65) used by Shell is identical to the Dealer Sales Contract previously discussed with the exception of the equipment loan provisions contained in the latter contract. Under the Dealer Sales Agreement Shell does not loan equipment to the Dealer.

### **2. Leased Outlets**

Two forms of lease are used by Shell for its lessee operated outlets.

#### **(a) Lease**

The Lease (Shell, 2006 Rev. 8/66) does not contain any exclusive dealing provisions and there are no advertising limitations. The lessee is required to use the demised premises for the operation of an automobile service station only (clause 4, page 1).

The Lease is for a specified term and continues yearly thereafter, but can be terminated by either party on 30 days notice prior to the expiration of the then current term.

Provision for termination is made as follows:

"If Lessee defaults in the performance or observance of any of the covenants or conditions of this lease . . . or if the service station on the premises is closed for more than 72 successive hours . . . Lessor may . . . without notice, terminate this lease . . ."

(clause 8, page 2)

The following advertising limitation is imposed:

". . . this lease does not confer on the Lessee any rights to use Lessor's trade marks trade names, color schemes or advertising signs or devices."

(clause 10, page 2)

Shell also excludes itself from any liability for the operation of the service station as follows:

"Nothing in this lease shall be construed as reserving to Lessor any right to exercise any control over, or to direct in any respect the conduct or management of, the business or operations of Lessee on the premises; but the entire control and direction of such business and operations shall be and remain in Lessee, subject only to Lessee's performance of the obligations of this lease. Neither Lessee nor any person performing any duties or engaged in any work on the premises at the request of Lessee shall be deemed an employee or agent of Lessor . . ."

(clause 10, page 2)

#### **(b) Sublease**

The Sublease (Shell, 2025 Rev. 6/65) used by Shell contains the following limitation as to the use to be made of the demised premises:

"Lessee shall use the premises only for the operation of an automobile service station, including the retail sale of petroleum products, accessories and minor repair and other services for motor vehicles . . ."

(clause 4, page 1)



The Sublease does not contain any exclusive dealing provisions.

The Sublease contains the identical limitation on the use of Shell trade marks, trade names, etc. as contained in the lease previously discussed.

The Sublease contains the identical absolvment on the part of Shell as contained in clause 10 of the lease previously described.

The Sublease is for a specified term and the Lessee is granted an option to renew for further specified periods.

If the Lessee defaults in the performance of any of his obligations Shell may, at its option and without notice, terminate the Sublease.

### **3. Mortgaged Outlets (Owners Financed)**

Shell did not provide a land mortgage form with its returns. However, in its returns Shell states that its land mortgage contains the following exclusive dealing provisions:

"That he will not during the currency of this Mortgage sell or otherwise deal in, handle, dispose of, or advertise any gasoline or other petroleum products upon the said lands or by means of any tanks, pumps or other equipment owned or controlled by him, other than the gasoline and other petroleum products supplied by the Mortgagee, and that no part of the said lands, tanks, pumps or other equipment and no part of any lands adjoining the same now or hereafter owned by him or in his possession shall be used for the sale or other dealing, handling, disposition or advertising of any gasoline, or other petroleum products except such gasoline and other petroleum products as are supplied by the Mortgagee during the said period . . . ."

"That during the said period he will handle, deal in, dispense and advertise the gasoline and other petroleum products of the Mortgagee exclusively and will use his best endeavours to promote the continuous sale thereof under the brands, copyrights and/or trade mark names of the Mortgagee therefor. . . ."

And by the same clause the Dealer must operate the service station in a manner satisfactory to Shell:

". . . and will operate continuously the buildings and other equipment on the said lands and the tanks, pumps and other equipment owned, or controlled by him in a manner satisfactory to the Mortgagee, of which the Mortgagee shall be the sole judge . . . ."

The dealer is also required to adopt the color scheme of Shell:

". . . and that he will keep painted the said buildings, pumps and other equipment in the color scheme now in force in service stations and on equipment used in selling the products of the mortgagee, and will from time to time preserve the present color scheme or such other color scheme as during the said period may be generally adopted by the Mortgagee . . . ."

Once the relation of Shell and the dealer comes to an end the dealer is obligated to immediately discontinue the use of Shell's advertising and color schemes or any other color scheme that may resemble Shell's.

### **4. Owners of Service Stations Operating Brand Outlets (Owners not Financed)**

With owned outlets Shell uses either the Dealer Sales Contract or Dealer Sales Agreement studied in section 1.

### **5. Sundry Agreements and Contracts**

#### **(a) Equipment Loan Agreement**

The Equipment Loan Agreement (Shell, 5004 Rev. 1/59) utilized by Shell when it loans equipment to the dealer restricts the use to be made of the equipment. The dealer is required to:

". . . use said equipment solely for or in connection with the storage, handling and use of petroleum products manufactured or sold by Shell . . . ."

(clause 3, page 1)

The Agreement is for a specified term and continues from year to year thereafter. The dealer may terminate the Agreement by 30 days written notice prior to the end of the then current period. Shell may terminate the Agreement at any time by giving the dealer 30 days written notice.

### **(b) Shellubrication Franchise Agreement**

The Shellubrication Franchise Agreement (Shell, 700 Rev. 4/52) requires the dealer to:

“... use, advertise and display only lubricating oil and greases obtained from Shell in connection with the performance of Shellubrication service and for this purpose DEALER agrees to purchase from Shell and to keep on hand at all times a representative stock of automotive lubricants . . .”

(clause 6, page 1)

The Agreement remains in force until terminated by either party giving to the other 10 days written notice. Shell may cancel the contract, at its election, should the Dealer breach any of his obligations.

### **(c) Gasoline Consignment Agreement**

Under the Gasoline Consignment Agreement (Shell, 2002 Rev. 10/65) the title and property in the gasoline remains in Shell until sold by the Dealer to the customer. The dealer is paid a commission on gasoline sales. The gasoline is sold by the dealer at prices fixed by Shell.

Although there is no express exclusive dealing provision or any express advertising restrictions the dealer agrees to:

“... use Dealer's best efforts to promote the sale of the Company's gasolines at the Station; to sell such gasolines for and on behalf of the Company under the trade marks . . .”

(clause 2, parts (a) and (b), page 1)

Shell absolves itself from all responsibility for the operation of the service station by providing that:

“... Dealer has and will continue to have full and complete charge and control of and entire responsibility for the operation of the Station including the sale of all gasoline; and that Dealer will continue to pay on his own behalf all costs and expenses incidental thereto including the hiring and payment of wages to Dealer's assistants and employees engaged in the operation of the Station; and that Dealer will retain full control and authority over such assistants and employees.”

(clause 2, sub clause (d), page 1)

Any other agreement between Shell and the dealer respecting the sale of gasoline is suspended during the term of the Gasoline Consignment Agreement, and upon termination of the Gasoline Consignment Agreement any such agreement is automatically restored.

The Agreement is in effect until terminated by either party giving to the other 14 days prior notice unless terminated by mutual consent. Should the dealer default in his obligations Shell may terminate the Agreement immediately by notice to the dealer.

## **(6) Standard Oil Company of British Columbia Limited Contract Ties**

In 1965 Standard had a total of 8 retail outlets in Alberta. All of the outlets were owned by Standard and all except one were operated by lessees of Standard. The one outlet was operated by a Standard employee.

### **1. Dealer Gasoline and Lubricating Products Contract**

The Dealer Gasoline and Lubricating Products Contract (Standard, BC-4-2M-7-66-43757) used by Standard contains the following provision as to exclusive dealing:

“... Buyer hereby agrees to buy from the Seller all of the Buyer's requirements of gasoline and such other petroleum products as may be offered for sale by the Seller . . . used or sold or bought to be used or sold by the Buyer in the conduct of the

Buyer's business . . . and the Buyer agrees not to buy, use or sell any other petroleum products . . . without the written consent of the Seller."

(para 1, page 1)

The above provision does not require the dealer to purchase his T.B.A. products from Standard, and is restricted to gasoline and petroleum products only.

The Contract contains the following restriction as to advertising on the service station premises:

"The Buyer shall not construct or place or permit to be constructed or placed on or over the Buyer's business premises any notices, posters, billboards, signs or other advertising medium of any kind, except those provided by the Seller, nor shall the Buyer advertise or permit any advertising of any product offered for sale by the Buyer without the written consent of the Seller."

(clause 4, page 2)

"It is understood and agreed that the product or products covered by this contract will be sold to the public as the product or products of Seller under Seller's regular trade marks and brand names for such product or products. Buyer is not to use in connection with the sale and/or advertisement for sale of said product or products any trade mark, brand name or color scheme other than those regularly used by the Seller for such product or products, unless expressly consented to in writing by Seller."

(clause 5, page 2)

The Contract contains the following provisions concerning suspension of Standard's obligations and termination of the Contract:

". . . If at any time the Buyer shall fail to make any payments due hereunder, the Seller, notwithstanding anything hereinbefore or hereinafter contained, may suspend deliveries until such payment has been made, or may at its option terminate this contract forthwith . . ."

(clause 1, page 2)

"In the event the Buyer shall fail to perform or fulfil any obligation imposed on the Buyer herein, the Seller may suspend deliveries hereunder during the whole or any portion of the duration of such default."

(clause 3, page 2)

". . . PROVIDED, however, that the Seller may terminate this contract at any time upon giving thirty (30) days written notice thereof to the Buyer."

(para. 2, page 1)

The Contract is for a specified period of time and thereafter until terminated by the dealer giving to Standard 30 days notice in writing. The dealer does not have the right to terminate at any time that is vested in Standard.

## **2. Leased Outlets**

The Service Station Lease (Standard, A-2) used by Standard contains exclusive dealing provisions. The Lease contains the following clause concerning exclusive purchasing of Standard's products:

"The Lessee covenants and agrees that he will not buy, receive, sell or dispose of either directly or indirectly or permit to be bought, received, sold or disposed of, on, out of or about the demised premises any gasolines and other petroleum products, tires, tubes, batteries and other automotive accessories, other than such as shall have been actually purchased from or supplied by the Lessor or such person, firm or corporation as the Lessor shall from time to time specify."

(para. 5, page 2)

The following clause in the Lease dealing with signs on the demised premises may possess some restrictive implications:

"Lessee shall not, without the Lessor's prior written consent, . . . alter, remove, cover, add to or deface any paint, sign or other property located on the premises or add any additional paint or signs to the premises or any property located thereon."

(para. 2, page 2)

The Lease contains the following provisions concerning termination:

"It is understood and agreed that . . . in case of the breach or nonperformance of any of the covenants and agreements herein contained on the part of the said



Lessee, its successors or assigns, at any time thereafter, into and upon the said demised premises, or any part thereof, to re-enter and the same to have again, repossess and enjoy . . .”

(para. 4, page 1)

and

“ . . . PROVIDED, however, that the Lessor may terminate this Lease at any time upon giving thirty (30) days written notice thereof to the Lessee . . .”

(para. 1, page 1)

The first provision appears to provide for termination and immediate re-entry without notice on the part of Standard if the Lessee fails to abide by the provisions of the Lease.

Although the Lease is for a specified period of time the latter provision as to termination vested in Standard places the Lessee in the position of being a Lessee only during the goodwill of Standard. The Lessee does not have a comparable 30 day right of termination.

The exclusive dealing provision in the Lease covers the purchase of gasoline, petroleum and T.B.A. products while the exclusive dealing clause in the Dealer Contract previously discussed covers only gasoline and petroleum products. Under the Lease the Lessee is required to purchase not only from Standard but from any person, firm or corporation designated by Standard. Under the Dealer Contract the dealer is required to purchase from Standard only.

### **3. Mortgaged Outlets (Owner Financed)**

Standard did not have any mortgaged outlets (owner financed) in the year 1965. No land mortgage form was provided by the Company with its returns.

### **4. Owners of Service Stations Operating Brand Outlets (Owners not Financed)**

Standard did not have any outlets owned by the dealer in 1965.

### **5. Sundry Agreements and Contracts**

#### **(a) Conditional Sale Agreement**

When equipment is sold by Standard to a dealer on instalments Standard makes use of a Conditional Sale Agreement. Two forms of such agreement were provided by Standard. In the short form Conditional Sale Agreement (Standard, BC 1-A 1M-3-59-9456) the dealer (buyer) agrees:

- (a) To use the said goods solely for the purpose of storing and using the petroleum products of the Seller.
- (b) To purchase from the Seller exclusively the Buyer's requirements of petroleum products . . .
- (c) Not to purchase or use . . . the petroleum products of any other supplier.”

(clause 4, page 1)

The Agreement provides that any payment made by the dealer under the Agreement may be applied by Standard to the Agreement or any other agreement or account between the dealer and Standard as Standard may elect and the dealer expressly waives any right to make special application of payments. The effect of such appropriation allows Standard to apply any payments made on the Agreement on any unsecured account of the dealer and still retain security on the equipment covered by the Agreement. In effect the Conditional Sale Agreement also secures unsecured accounts of the dealer.

The Agreement provides that should the dealer default on any of the terms of the Agreement Standard may (a) repossess the equipment, declare the agreement to be null and void and retain all payments made as rental for the equipment, or (2) declare the deferred balance immediately due and payable, or (3) take possession of and sell the equipment, apply the net proceeds of the sale against the

balance owing under the Agreement and proceed against the dealer for any deficiency between the balance owing and the net sale proceeds.

The long form Conditional Sale Agreement (Standard BC-1-500-1-54-25942) contains the following exclusive dealing provision:

"... Buyer will during the continuance of this contract and so long as any moneys shall be owing hereunder, carry on upon the said lands and premises the business of retailing gasoline and other petroleum and automotive products and during such term will purchase exclusively from Seller or from such other person, firm or corporation as Seller may direct in writing, all gasoline and other petroleum products, tires, tubes, batteries and such other products as may be offered for sale by Seller to the dealer trade ..."

(Clause 8, page 2)

The exclusive dealing clause above cited also states that the dealer's agreeing to purchase exclusively from Standard is the main consideration for Standard entering into the Agreement.

The dealer further agrees that he will not:

"... so long as any moneys shall be owing hereunder, buy, receive, sell or dispose of either directly or indirectly or permit to be bought, received, sold or disposed of, on, out of or about the said lands and premises any gasoline and other petroleum products, tires, tubes, batteries and other products as aforesaid, other than such as shall have been actually purchased from or supplied by Seller or such person, firm or corporation as Seller shall from time to time specify ..."

(clause 9, page 2)

and by the same clause the dealer agrees not to handle within one mile of the station similar products of competitors of Standard without its written consent. Other than the one mile limitation the exclusive dealing provision in clause 9 is similar to the exclusive dealing provision (para. 5, page 2) of the Service Station Lease already discussed.

The dealer further agrees that:

"During the currency of this contract Buyer shall use the said personal property solely for the purpose of dispensing and purveying the aforesaid products of Seller or of such other person, firm, or corporation as Seller shall from time to time specify."

(clause 10, page 2)

The Agreement contains an appropriation of payments clause (clause 7, page 1) identical to clause 5 of the short form Conditional Sale Agreement.

The Agreement provides the same remedies to Standard on default by the dealer as those in the short form Agreement.

Standard may delay the acceptance of the final payment due under the Agreement with the following clause:

"... the final payment of the purchase price payable hereunder shall not be deemed to be accepted by the Seller until the issuance by the Seller of an official receipt ..."

(clause 2, page 1)

This clause is somewhat similar to the delayed payment clause common in land mortgages used by the major gasoline suppliers.

The short form Agreement obligates the dealer to purchase petroleum products only from Standard while the long form Agreement requires the purchase of all petroleum and TBA products from Standard or a designated supplier. The short form Agreement grants the various remedies to Standard only upon default by the dealer while the long form Agreement, in addition to granting the remedies on default by the dealer, grants the remedies

"... if Seller shall at any time consider that any part of the purchase money is insecure ..."

(clause 11, page 2)

and Standard could exercise its remedies without default by the dealer.

The returns of Standard do not indicate why conditional sale contracts are employed in lessee operated outlets where Standard owns the outlet, but it seems that these contracts would be concerned with equipment which is not provided with the premises.

### **(b) Zeon Sign & Chevronmatic Imprinter Rental Agreement**

In the Zeon Sign and Chevronmatic Imprinter Rental Agreement (Standard BC-20 1M 6/60 SD) there is a provision which may be interpreted as binding the dealer to purchase his products from Standard. The section to this effect reads as follows:

"... and you (the dealer) agree to claim no right to use any of the said equipment except in connection with products supplied by us and sold by you."

(para. 2)

The Agreement contains no express terms for termination by Standard but provides that:

"... we (Standard) shall have the right to remove all or any part of the said equipment at any time without prior notice ..."

(para. 3)

### **(c) T.B.A. Purchase Agreement**

Under a TBA Purchase Agreement (Standard, BC-26 1M 12/62 SD) Standard agrees to honour credit card purchases invoices covering the sale by the dealer of TBA products on the following condition:

"That you purchase all such tires, tubes, batteries, and automotive accessories for sale from your service station premises ... from ....."

(clause a)

a supplier designated by Standard. The Agreement may be terminated by Standard on 30 days written notice.

### **(d) Chattel Mortgage**

The Chattel Mortgage (Standard, BCM-8 500-4-66-42117) taken by Standard to secure loans made to the dealer provides that the dealer will:

"... during the continuance of the security hereby created carry on upon the aforesaid lands and premises the business of retailing gasoline and other petroleum and automotive products and during such term will purchase exclusively from the Grantee or from such other person, firm or corporation as the Grantee may direct in writing, all gasoline and other petroleum products, tires, tubes, batteries and such other products as may be offered for sale by the Grantee ..."

(para. 6, page 3)

The mortgage also contains an exclusive dealing clause under which the dealer agrees to:

"... buy, receive, sell or dispose of either directly or indirectly or permit to be bought, sold or disposed of, on, out of or about the said lands and premises any gasoline and other petroleum products, tires, tubes, batteries and other products as aforesaid, other than such as shall have been actually purchased from or supplied by the Grantee or such person, firm or corporation as the Grantee shall from time to time specify ..."

(para. 7, page 3)

and by the same paragraph the dealer agrees not to handle within one mile of the station similar products of competitors of Standard without its written consent.

The mortgage also provides that the dealer's agreeing to purchase exclusively from Standard is the main consideration for the company granting the loan to the dealer.

Under the mortgage the dealer can prepay at any time the amount due, except an amount of \$100 which cannot be paid until a certain specified date.

The mortgage provides that should the dealer default in any of the terms of the contract, or should Standard "... feel unsafe or insecure ..." it may take possession of the equipment covered by the mortgage, sell the same, apply the net proceeds against the balance owing and proceed against the dealer for any deficiency.



## CHAPTER 20. ENFORCEMENT OF CONTRACTS

### (1) Attitudes and Methods of Enforcement

To what extent are the oil companies prepared to enforce the harsh terms of their unconscionable contracts with operators?

It is probably obvious that a company would not include provisions in its contracts unless it intended to use them if the need arose. It is probably equally obvious that the mere fact that the provisions exist largely eliminates the need for their enforcement. If a dispute arises and the issue is covered by a provision in a contract, simply drawing the provision to the attention of the person frequently eliminates the argument. Most people don't want to become involved in legal proceedings, particularly if the outcome is almost a foregone conclusion.

In the extremely rare cases where the service station operator decides to face the heavy odds and fight for what he regards as his freedom and rights as an "independent businessman," does the oil company go to the limits of its wide range of powers contained in its numerous restrictive contracts?

The answer appears to be an unqualified yes!

The company reacts swiftly and decisively. The operator is beset with a bewildering number and variety of sanctions and penalties. The company treats the operator's actions as an infection which must be eliminated by any possible means and as quickly as possible. The message as to the massive retaliation and the overwhelming certainty of the inevitable result is not lost on other operators, on whom it has a deterrent effect.

As a result oil company "suggestions" to operators are respected and observed to a remarkable degree.

The fears expressed by operators appear to fall into two categories—

- (a) that they may lose their station for actions which are expressly covered by some term of their various contracts; or
- (b) that they may lose their station for failure to conform to some oil company policy of which they have been made aware but which is not dealt with in any contract.

The oil company normally has an absolute right to terminate on a certain number of days notice and no cause for termination need be stated. This power can be used in the case of a disagreement between an operator and an oil company relating to a policy or an issue which is not spelled out in any contract. Furthermore no operator can run his station in a faultless manner. The oil company can almost invariably allege justification by pointing to minor breaches of various contract provisions which it normally ignores, but which it can use as reasons for termination if it appears desirable to state a reason. Such reasons may be completely unrelated to the principal difference between the parties which appears to have been the real cause for termination.

The Committee has considered the circumstances of a number of terminations where different contract provisions and different issues were involved. The circumstances of four cases of termination will be outlined to illustrate the attitude and methods used by oil companies to enforce their policies by using their contracts. The four illustrations involve contract provisions which are the same or similar to those used in Alberta, and each of the companies involved operates in Alberta.

Two illustrations involve enforcement where an express provision of the contract covered the issue, namely:—

- (a) Contract in Restraint of Right to Prepay Debts (Alberta);
- (b) Contract in Restraint of Trade (England);

and two illustrations involve enforcement of a policy not covered by an express provision of a contract namely:—

- (c) no right to determine closing hours (Alberta); (not covered by contract)
- (d) no right to participate in trade association (Quebec); (not covered by contract).

Service station operators in other jurisdictions and countries appear to have the same problems as those reported to us by service station operators in Alberta arising under similar contract provisions with the same international oil companies.

The English case involved the same kind of ties for approximately the same period as those that caused the problem for the Alberta operator. In the English case the House of Lords found the ties to be in restraint of trade and unenforceable, while the Alberta operator in similar circumstances, rather than fighting the issue to the highest court in the country, gave up his unequal struggle and sold out to the oil company.

The fifth case illustrates continued enforcement of rights against a former operator which were enforced long after his termination.

The sixth case illustrates how early in the relationship between oil company and operator the feeling of hostility and distrust can arise and the almost automatic resort to threats as the means of enforcement.

## **(2) Contract in Restraint of Right to Prepay Debts (Alberta)**

A man who wished to be a service station operator obtained an option to purchase a desirable service station site in an Alberta city. He approached an oil company whose products he intended to sell with a view to borrowing some of the money required to take up the option. As a result of the negotiations they mutually agreed that the oil company would obtain title to the land which would be registered in its name, but it would sell the land to the operator under an *Agreement for Sale*. The *Agreement for Sale* had a provision for prepayment, with the exception of the final \$200.00, which the oil company did not have to accept for a 20 year term.

When the operator desired to borrow additional money in connection with the construction of his service station he executed a mortgage in favor of the oil company which contained a provision for prepayment of the mortgage money, with the exception of \$200.00 which the oil company was not required to accept for a 20 year term. The mortgage contained a provision that the operator would purchase from the oil company exclusively all petroleum products to be sold or dealt in on the said lands so long as any monies are outstanding under the mortgage. The operator also signed the usual dealership or franchise agreement, which again contained a clause requiring him to purchase exclusively from the oil company.

After about 2 years the operator realized it would be a difficult struggle with his low profits to keep up the instalments to the oil company on his agreement for sale and his mortgage. He considered he had to explore any means of increasing the profits from his business. Another supplier offered to sell him gasoline at a price below that being charged by his oil company. The operator consulted his lawyer who wrote a letter to the oil company reading in part as follows:

"Mr. \_\_\_\_\_ informs me that he could obtain gas from other sources 2½¢ to 3¢ cheaper per gallon than the present price he is paying (your oil company).

Mr. \_\_\_\_\_ is experiencing difficulties in meeting his obligations to your company under the agreement for sale and mortgage, although these payments are most reasonable, he feels he is not getting sufficient margin on the gas gallonage."

"I shall be obliged if you will consider the contents of this letter as to whether or not Mr. \_\_\_\_\_ could obtain a reduction in the price of gas which he obtains from your company of at least 2¢ per gallon less than his present cost."

The operator's lawyer received a letter from the oil company's lawyer reading in part as follows:

"We are instructed to advise you that (the oil company) will not give Mr. \_\_\_\_\_ any reduction in the price of gasoline from its tank wagon price."

As long as the operator was tied to his oil company by terms of the mortgage, the agreement for sale, and the franchise agreement, under which he was required to purchase exclusively from his oil company, so long as he owed it any money, the

next logical step was to pay his debt to the oil company which would leave him free to purchase on more favorable terms and operate a more profitable business.

The operator's lawyer accordingly wrote to the oil company a letter which read in part as follows:

"Mr. \_\_\_\_\_ wishes to pay off the full balance outstanding to your company, both under the Agreement for Sale and the mortgage, and is prepared to pay a reasonable penalty for so doing." "He also wishes to be freed from the trading agreement". "Under the Agreement for Sale and Mortgage, which were signed some while ago with your company, Mr. \_\_\_\_\_ agreed that all monies could be paid with the exception of the last \$200.00 on both documents. Mr. \_\_\_\_\_ wishes to pay off the last \$400.00 as well, and obtain title to the station."

The solicitors for the oil company replied in part as follows:

"(the oil company) will accept prepayment of the Agreement for Sale and the mortgage only upon the terms set forth in those documents, that is, that the final \$200.00 payable under each document can not be prepaid until (date 18 years later)."

"(the oil company) will not release Mr. \_\_\_\_\_ from the franchise agreement". "Because (the oil company) does not agree to accept full repayment of the Agreement for Sale and mortgage, but takes the position that the final \$200.00 under each agreement must remain outstanding, without interest, until (date 18 years later), as in the agreements more particularly set forth, the preferential right to purchase . . . remains in existence and any bona fide offer received by Mr. \_\_\_\_\_ for the purchase of the property, must be communicated to (the oil company) and that company has two months within which to elect to purchase the lands on the terms of such offer. The same preferential right applies also to any offer to lease the property."

The operator considered he was losing money on his operations so he decided to close the service station and had his lawyer notify the oil company to this effect.

The reply from the solicitors from the oil company read in part as follows:

"With respect to the closing of this service station we would draw your attention to clause \_\_\_\_\_ of the Agreement for Sale which provides that so long as any portion of the purchase monies remains unpaid, the purchaser will at all times . . . fully operate the garage and/or service station premises located on the said lands during the normal hours of operation for the particular locality."

After the closure of the service station the lawyers for the oil company wrote to the lawyers for the operator relating to the closure which letter read in part as follows:

"Our client takes the position that this is a violation of the covenant contained in his agreement. It cannot, and does not, waive any of its rights and intends to hold Mr. \_\_\_\_\_ fully responsible for the consequences of his breach."

The operator kept the station closed for almost a year during which nothing further transpired. The oil company apparently was able to wait in the confident assumption that the operator would run out of money before the company did.

The operator with no income from his station was unable to carry on.

He had to offer his service station for sale or for lease, and in either case the oil company under its agreement had a preferential right to meet any offer. Faced with the unhappy choice of bearing the expense of the station and keeping it closed for a period of years, or selling to the oil company, the operator accepted the inevitable result and sold to the oil company.

### **(3) Contract in Restraint of Trade (England)**

#### **The Harper's Garage Case**

In England a recent case was tried and appealed through various courts to the House of Lords. This dispute was between Esso Petroleum Company Limited and Harper's Garage (Stourport) Limited. Harper's owned two garages or filling stations and contracted with Esso under solus agreements "to sell at their garages Esso petrol and no other". Subsequently Harper's began to sell other gasoline and Esso commenced two actions in the courts to prevent it.



Esso sought and obtained injunctions restraining Harper's from buying other than from them any motor fuel for resale at these garages. Harper's appealed to the Court of Appeal which set aside the injunction on the ground that "the ties in these agreements were in restraint of trade and were unenforceable". Esso then appealed to the House of Lords maintaining that the ties were not in restraint of trade, and even if they were, they were valid and enforceable.

The House of Lords in February 1967 took the view that in the case of both garages the ties were in restraint of trade. However, in the case of one garage they decided that the ties were reasonable and enforceable, but in the case of the other garage they decided the ties were unreasonable and unenforceable. In the first case, the Mustow Green Garage, the duration of the solus agreement was for less than five years and the House of Lords found that "the tie as arranged for that period was reasonable as between the parties".

However in the second case of the Corner Garage there was a solus agreement, a loan agreement, and a mortgage. The solus agreement was in similar terms for both garages except that in the second case it was for a period of twenty-one years. Esso lent £7,000 to Harper's and by the loan agreement Harper's agreed to purchase all its requirements of motor fuels from Esso until the loan and interest was repaid. Harper's granted a mortgage to Esso as security for the loan. By the mortgage, Harper's were to pay off the loan by instalments over the twenty-one years, they had no right to prepay, and the mortgage contained a covenant to purchase motor fuels exclusively from Esso for the duration of the mortgage. Harper's tendered the unpaid balance of their loan and claimed that Esso had no interest in refusing to accept repayment except in order to maintain the tie for the full twenty-one years.

Lord Morris in his judgment stated . . .

"A consideration of the facts and the documents leads me to the view that the solus agreement, the loan agreement and the mortgage can be linked together as incidents of one transaction and that the intention was that in providing that the mortgage should be irredeemable for the period of the tie it should become a support for the solus agreement . . . In regard to the period of twenty-one years I consider that Esso has failed to show that a period of that length was reasonable in the interests of the parties . . . There was an unreasonable restraint of trade and the inclusion of it in the mortgage which was made irredeemable for the period went beyond what could be justified as the protection of Esso's interest to secure their loan."

Accordingly in the case of the Corner Garage the House of Lords agreed with the Court of Appeal that the contract ties were in restraint of trade, and were unenforceable because they were unreasonable.

#### **(4) No Right to Determine Closing Hours (Alberta) (not prohibited by contract)**

Gordon MacGregor was a service station operator in Edmonton, Alberta who leased his service station from his oil company.

MacGregor had better qualifications for success than many new lessee operators. He was a licensed mechanic and had about 17 years experience in garages and service stations, part of which was in a garage he operated in Saskatchewan. He had worked in the station in Edmonton as an employee for a year before he commenced to lease it in October of 1961.

When MacGregor first leased this station it was selling about 112,000 gallons per year and operated on a twelve hour basis from 7 a.m. to 7 p.m.

In 1962 MacGregor applied to the City of Edmonton for and was granted Permit 97, entitling him to provide 24 hour service. He states that he did not discuss this application with his oil company nor did they suggest it.

MacGregor gradually increased the sales through the station until it was selling approximately 240,000 gallons per year. By objective or comparative standards MacGregor appears to have been a better than average service station operator.

Early in 1963 MacGregor became convinced that he was losing money on his night time operations, and reached the decision that he wished to surrender his 24 hour permit to the City of Edmonton and revert to 12 hour operations. He

mentioned this to his oil company representative and was told that the oil company would have serious objections to MacGregor surrendering his permit. He states that he was threatened with termination of his lease if he surrendered his 24 hour permit.

MacGregor states he thought he could persuade the oil company to agree with surrender of the permit if he could convince it that he was losing money during his hours of night operation.

He accordingly kept records of his sales during the months of April and May 1963 showing for each day a detailed breakdown of individual items of merchandise sold between the hours of 12 a.m. and 7 a.m., between the hours of 7 a.m. and 7 p.m., and between the hours of 7 p.m. and 12 p.m.

During April and May of 1963 the breakdown of his sales by these records was as follows:

	Hours	Dollar Volume of sales	Percentage of sales
April 1963	12 a.m. to 7 a.m.	\$ 1,414.43	10%
	7 a.m. to 7 p.m.	8,519.30	60%
	7 p.m. to 12 a.m.	4,301.70	30%
		<u>\$ 14,295.43</u>	<u>100%</u>
	Hours	Dollar Volume of sales	Percentage of sales
May 1963	12 a.m. to 7 a.m.	\$ 1,257.34	8%
	7 a.m. to 7 p.m.	9,719.35	62.5%
	7 p.m. to 12 a.m.	4,570.90	29.5%
		<u>\$ 15,547.59</u>	<u>100.0%</u>

Mr. MacGregor pointed out that his night time business during the spring when these records were kept was higher than in the winter months, and a majority of the business in the period from 7 p.m. to 12 p.m. was done in the first two hours. In any case it was quite clear from the financial statements that MacGregor's expenses for night operations exceeded his income for the night operations.

Notwithstanding that MacGregor was losing money on his night operations, he was unable to persuade his oil company that it was advisable for him to surrender his 24 hour permit.

On the 30th of June 1963 MacGregor notified the City of Edmonton that he would be closing his station at 7 p.m. daily after July 15th, 1963.

On the 10th of July 1963 the oil company served Notice of Termination of MacGregor's lease demanding possession of the service station premises on or before the 31st of August 1963.

During the days that followed in the latter part of July and early August MacGregor had several discussions with representatives of the oil company. MacGregor recorded some of these discussions on tape recordings.

Transcripts of the tapes indicate that a considerable portion of the recorded conversations had to do with the oil company's desire to keep the station open 24 hours and the operator's desire to restrict the hours of the station. The records indicate that the Notice of Termination was given primarily because of the difference between the parties over hours of opening. The records contain exchanges such as the following:

"No, we are not kicking you out. We are asking you to stay on and operate it 24 hours".

"But I can't economically operate it 24 hours."

"Well then, we will find someone who can."

Another exchange is as follows:

"You won't accept it unless I do as you say and run it 24 hours."

"We are not prepared to relinquish a 24 hour permit in this area. Now do you want the Division Manager of . . . oil company to tell you the same thing?"

Another exchange is as follows:

"We don't want to lose you" . . . "I am sincere when I say that. It's not going to be at the expense of a 24 hour permit that we keep you here".

"No it is going to be at the expense of me turning bankruptcy that you can keep me here, and that's what it will be".

Another exchange is as follows:

"So I can't get any more products?"

"No oil, no anti-freeze, no gasoline of ours. So this being our premises, our property, our equipment, you know the mess you are going to get yourself into as soon as you start buying (name of oil company) or somebody else's to keep the place open."

Another exchange is as follows:

"I'm no lawyer, I don't know but, as I say I don't think you can buck our paper, our wording as it has been tried before. They've had the papers so it must be legal."

"We're bucking it, they are robbing me of a business I'm making money on."

Another excerpt is as follows:

"Then all we have to say, and this has been held up in thirty courts in Canada, that this station and the operator do not come up to the standards of (name of oil company)".

MacGregor states he recorded these discussions with representatives from the oil company on various dates between July of 1963 and September 3rd.

The Notice of Lease Termination was effective August 31, 1963. Following that date the oil company refused to supply MacGregor with gasoline, etc.

MacGregor's solicitor served notice on the oil company that he would sue for breach of the dealership agreement or products contract, which had not been cancelled at the time of the cancellation of the lease. The oil company resumed deliveries of products but gave notice of termination of the products contract effective the end of September.

After the additional 30 days, the oil company again cut off gasoline deliveries but MacGregor refused to give up possession and obtained his gasoline from other suppliers. During this period MacGregor reports that six different oil companies each refused to sell gasoline to him.

For a time MacGregor states he obtained gasoline from a bulk dealer at a country location and he bought at a price from 4¢ to 6¢ per gallon less than he had been paying his oil company.

In due course the bulk dealer refused to supply MacGregor stating that he had been instructed by his oil company not to do so. MacGregor approached several gasoline truckers who declined to haul gasoline for him stating they were fearful of losing their hauling contracts with oil companies. He finally rented a truck from a friend and hauled gasoline himself to keep his pumps supplied.

The oil company petitioned the Supreme Court of Alberta for an Order of possession. The matter was dealt with by the oral judgment of The Honourable Mr. Justice W. J. C. Kirby in Chambers at the Court House in Edmonton on October 17, 1963.

It was evident that Mr. Justice Kirby had some sympathy for MacGregor's plight. He stated in part:

"I do agree with Mr. Miller's contention that the lessor was in breach of clause (10) of the lease,"



(Section 10 of the lease provided that the oil company had no right to exercise any control over or to direct the conduct or management of the business of the operator.) He further stated in his judgment—

“By the same token I agree that the conduct of the lessor in insisting that the lessee operate for 24 hours a day would have entitled the lessee to terminate the lease by reason of such conduct;”

Mr. Justice Kirby further stated:

“I think from the point of view of the lessee, that he had, it would appear, made a considerable investment in this business. I think he made in this respect an improvident transaction which I think this is very unfortunate.”

However, Mr. Justice Kirby granted the application of the oil company for possession. He stated

“It seems to me that the plain meaning of the provisions of clause (2) under the lease is that this is a month to month tenancy, which can be terminated by either party giving to the other at least 30 days notice, and this was done by the lessor in the letter to the lessee dated July 10, 1963.”

Upon the application of Mr. A. W. Miller, Q.C. representing MacGregor, Mr. Justice Kirby granted a stay of his order for possession pending an appeal to the Appellate Division.

MacGregor vacated his station in January 1964.

MacGregor's version of his termination was obtained by an interview. He was one of a number of former operators who were interviewed during the course of our investigation into causes for terminations.

The Committee attempted to obtain the oil company version of causes for termination by requesting it to complete a “Service Station Lease Termination Report” in respect of each of its terminations as outlined in oil company questionnaire 8. The oil company report on the MacGregor termination was not very informative, and it did not answer various questions where its opinion was asked.

To supplement our information, the Committee obtained and read various news reports relating to the MacGregor termination and to the subsequent legal proceedings, which were published in the Edmonton Journal, Oil Week, and The Financial Post, as well as some of the documents relating to the court proceedings including the reasons for judgment of The Honourable Mr. Justice Kirby.

There were suggestions that the oil company had “other reasons” for terminating MacGregor, which may be true. However, the Committee is convinced that the real issue in the MacGregor termination was MacGregor's desire to surrender a 24 hour permit and restrict the hours of opening of his station.

Whether it is moral or just for an oil company to threaten termination and to exercise its contractual right of termination as a weapon to impose its will on the lessee was not an issue before the Court.

The issue which came before the Court was simply the right given to the oil company by its contract to terminate its lease on thirty (30) days notice. The Judge found that the oil company exercised its right of termination in the manner authorized by its contract.

MacGregor's conduct in changing his hours of opening and surrendering his 24 hour permit was not in breach of any of his numerous contract obligations to his oil company. Furthermore, the oil company in attempting to impose its desires respecting opening hours was considered by Mr. Justice Kirby to be in breach of Clause (10) of its lease, being an interference in the business operations of the Lessee. The oil company terminated MacGregor's lease and put him out of business for doing something that not only was not prohibited by their contracts but was expressly permitted by the clause giving the lessee the right to control and direct his own business operation.

There appears to be some justification for the fears so often expressed by lessees that they may lose their stations and their businesses unless they observe the “suggestions” of their oil companies.

**(5) No Right to Participate in Trade Association (Quebec)  
(not covered by contract)**

Bernard Roux was a service station dealer in Rosemere, Quebec who leased his service station from his oil company.

He commenced to lease his three bay service station on September 1, 1958, after three previous operators had gone out of business at that location. During the next nine years he increased his annual gallonage from 165,000 gallons per year to approximately 390,000 gallons in 1966. He states he had a \$20,000.00 investment in equipment and inventory and a staff of eight employees. It was reported that in 1962 in a special province wide campaign conducted by his company, he was the first station selected for efficiency of operation. By objective standards such as years of profitable operation, annual gasoline gallonage sold, etc., he appears to have been a more successful service station operator than most.

On August 27, 1967 Bernard Roux was elected President of the Quebec Gasoline Retailers Fraternity.

Four days later, on September 1, 1967, he received notice of termination of his service station lease. The lease contained a clause providing for termination on 30 days notice and no reason or explanation was given for the termination. So far as Roux was aware there was no reason for termination other than his participation in the Quebec Gasoline Retailers Fraternity.

In the previous year M Baptiste Duchesne, a service station operator in Chicomitimi, had been elected President of the Quebec Gasoline Retailers Fraternity. Following his election he had received notice of termination of his lease but upon abandoning the presidency he was permitted to continue in business in the station which he occupied.

Roux decided to remain in his station and to resist the proceedings against him.

On October 4, Roux was served with a Writ of Summons requiring him to vacate the service station.

Later the same day the oil company District Manager accompanied by a Bailiff, four oil company employees, and the two proposed incoming lessees came to the station and attempted to take possession. There were discussions with Roux's lawyer and with the police and the oil company representatives left the premises.

On October 5, while the service station was closed for the night, the District Manager of the oil company accompanied by several employees, the prospective lessees and a locksmith, returned at approximately 5 a.m., removed the locks, entered the station, started taking inventory, and removed merchandise from the shelves.

At 6 a.m. on October 5, when an employee of Roux's arrived to open the station he found that his keys did not fit the new locks, and representatives of the oil company were in possession of the premises. The employee telephoned Roux who in turn telephoned the police station and the police took the persons in the station into custody.

When Roux's station ran out of gasoline he phoned the bulk plant which normally supplied him and confirmed his order with a telegram. He was unable to obtain gasoline from the bulk plant which was his normal source of supply. Roux obtained gasoline by sending an independent tank truck to another brand name outlet of the same company and buying supplies from its pumps.

On the 6th of October, Jacques Vachon, Roux's lawyer took steps to oppose the eviction.

On the 7th of October, informations were sworn out and Roux's lawyer had criminal charges of breaking and entering laid against the oil company District Manager, certain of its employees, a Bailiff, a locksmith, and the two prospective new lessees all of whom were arrested and released on bail of \$300.00 each.

On Tuesday October 10th the National Automotive Trades Association of Canada passed a resolution as follows:

"That the National Automotive Trades Association of Canada urgently request the Honourable Pierre Elliott Trudeau, Minister of Justice and the Honourable John Turner, Registrar General to take immediate action to investigate fully the case of the . . . service station operator Bernard Roux of Rosemere, Quebec who was served with Notice of Eviction arbitrarily and without stated cause four days after his election as President (August 27, 1967) of the Quebec Association of Service Station Operators".

On the 16th of October the oil company employees and others against whom charges were laid pleaded not guilty and proceedings were adjourned to February 14th, 1968.

On the 18th of October Roux's lawyer argued his case in St. Jerome.

On the 19th of October the court issued an injunction compelling the company to supply Roux with gasoline and related supplies until his application for a counter-injunction against the eviction order had been heard.

On January 16th, 1968 the Superior Court in Quebec found that the oil company lease contained a provision empowering the oil company to terminate on 30 days notice in writing and that it had exercised this right as provided in the lease. The judgment was in favor of the oil company.

This judgment was appealed and the appeal is expected to be heard in October 1968.

The injunction compelling the oil company to supply the operator with gasoline and related supplies remains in effect until the appeal is heard.

The criminal charges against the oil company employees and others accused of breaking and entering the station have been adjourned until after the hearing of the appeal.

There is nothing in the contracts of oil companies which prohibits service station operators from participating in the activities of their trade associations. However, two different oil companies in two successive years appear to have given notice of termination to a lessee, apparently because of his acceptance of office in his trade association.

Many service station operators in Alberta stated to the Committee that they were reluctant to belong to or be active in the Automotive Retailers Association because their oil company disapproved, and they feared the possible consequences.

## **(6) Collection of Debt from Former Operator**

In some industries the cost of recruiting and training a new man are set up on the books as a charge against his future earnings. If the man does not become successfully established and leaves the business the industry writes off its losses in trying to establish him and does not try to collect them from the recruit who failed to measure up.

An illustration of this is the life insurance industry where hundreds or thousands of dollars may be advanced to a new agent as a charge against commissions to be earned in the future. If he becomes successfully established the advances are recovered from his commissions on sales. If he doesn't become successfully established the insurance company writes off the loss as an expense of recruiting and training and doesn't attempt to recover it from such an agent.



By contrast a former service station operator was recruited by an oil company and put in a station where his predecessors had failed and where his successors subsequently failed. He spent his life's savings of approximately \$9,000.00 in attempting to become established in the service station business, his drawings from the service station business were a fraction of the salary he had received in jobs where he had previously been employed and after 16 months of trying he abandoned the business practically penniless and owing a debt to the oil company.

Seven years later at the time of our interviews with this former operator, he is an old age pensioner, an invalid, and unemployable by reason of his age and health. His 64 year old wife has found it necessary to go back to work on a full time basis to help support herself and her husband. In these circumstances, they are still being worried and hounded for collection of the debt owing to the oil company which they incurred in a vain effort to keep open an uneconomic service station which has had a multiple termination history.

The oil company bears some responsibility both for the existence of this debt and for the tragic circumstances in which this family now finds itself.

The former operator Mr. A was a welder by trade and he has excellent letters of recommendation from a number of former employers over the years testifying to his satisfactory work as a welder, as a layout man for welding, and as a welding inspector. The letters indicate he performed his duties "in a most capable and commendable manner" and that he "proved to be a highly productive and conscientious worker". One letter stated "we do not hesitate to give Mr. (A) our highest recommendation as an outstanding man in the welding trade and can assure you that he brings a wealth of experience with him, and would prove invaluable to any company with whom he accepted a position." He enjoyed good salaries from his various employers, earning as high as \$1,100.00 per month in one place. At age 60 he considered he could no longer stand the work, the hours, and the travelling required to be a pipeline welder so he decided to look for something else. At that time, he said he and his wife had never owed a dollar to anybody and he produced a bank book showing they had several thousand dollars in the bank.

The oil company which recruited him put him into a service station with very low gallorage where previous operators had failed to become successfully established. Mr. (A) had no previous experience in employing people or in operating a business. He had a lifetime of experience in being an employee and doing as his employer instructed.

He states that he stocked and operated the service station in accordance with the oil company instructions. He invested a large part of his savings in buying gasoline, stock-in-trade, tools and equipment from the oil company to operate the service station. He worked hard and gradually increased the volume from a very low level to a higher than average level. He won a prize from the oil company for the quality of housekeeping and cleanliness on the station.

His station was open 12 hours per day under the Edmonton by-law and he was personally present all of the time his station was open. He did not wish to become a 24 hour station but the oil company urged him to do so. With the extra staff required for 24 hour operation he was afraid he might lose money but the oil company's sales representative assured him that the company would assist if things didn't work out. Against his better judgment he went on a 24 hour basis and began losing money. Most days he worked in the station from 7 a.m. until midnight. Mr. A stated to the Committee

"My business was killed by the costs of being open 24 hours. You work pretty hard when you are over 60 and see your life savings slipping away."

He wanted to give up the 24 hour permit and revert to 12 hour operation, but the oil company's sales representative urged him to continue to give the business a chance to build up. To buy gasoline and to pay wages to his employees and other overhead, he had to keep dipping into his savings until the entire \$9,000.00 was

gone. Not only had he lost his entire savings, but he had worked 17 hours per day for months at a fraction of the wage he had been accustomed to earn. He was accustomed to taking instructions from an employer, and as he regarded the oil company as an expert in the business he had done things in the manner they suggested or recommended and followed their instructions as far as possible, while at the same time fully acquainting them with his difficulties. When he terminated they bought back his equipment and tools at greatly depreciated prices over what he had originally paid to the oil company, and he wound up owing the company money for gasoline and other products supplied.

It is obvious that the operator obtained little if any benefit from investing his life's savings and 16 months of hard work. The oil company obtained much more obvious benefits because its brand name station was kept open in accordance with its desires 24 hours a day and sold an increasing volume of its products on which it made a profit. Mr. A's \$9,000.00 of savings and thousands of hours of his work were contributed to assist in the keeping open of this station.

Unlike the insurance company which writes off the residual loss from attempting to recruit and train an unsuccessful agent, the oil company has continued its efforts to collect the debt owing by the operator to the company when his business finally failed. A year and a half after his termination, a letter to him from the oil company's Edmonton solicitors read in part as follows:

"I have now authority to make a substantial reduction in this account for cash. If and when you are in a position to take advantage of this reduction would you get in touch with me and we will negotiate terms."

Mr. A. moved to British Columbia to obtain employment with a former employer. He received a letter from the oil company's Victoria solicitors reading in part as follows:

"I am not going to be put off by your refusal to comply with my request of November 5th, that you telephone me so that I may arrange to see you about the above mentioned matter.

Failing some element of cooperation on your part, you are soon going to find yourself served with a writ issued out of the Supreme Court of British Columbia. I suggest, therefore, that you telephone me immediately upon receipt of this letter."

The debt was turned over to a collection agency for collection and Mr. A. received a letter dated November 19, 1963 from the collection agency reading in part as follows:

"Garnishee proceedings will be recommended against you at your employment within seven days unless payment is in this office on or before that date. This is absolutely final so govern your actions accordingly."

Mr. A. stated to the Committee

"I kept paying as long as I was working."

However, he had to quit working due to a series of serious illnesses. He underwent an operation for a bleeding artery which kept him away from work for some months. Shortly after his return to work he became ill with emphysema and pneumonia which was followed by a stroke leaving his left side partly paralyzed. He was operated on for a blood clot to relieve the paralysis and subsequently experienced a heart attack. He has been unable to work for three years and due to the serious nature of his illness his wife kept from him anything that was likely to worry or upset him.

She herself obtained full time employment as a saleslady at a wage of \$180.00 per month to help pay medical bills and living expenses. Mr. and Mrs. A bought a small house, the payments on which are being met out of her earnings and her husband's old age pension. It was their intention to acquire it in her name because of the possible legal proceedings against her husband for his debt to the oil company. Through a misunderstanding the property was acquired in their joint names. When the solicitor took steps to correct this, he found that in the meantime a judgment for the debt to the oil company had been entered against the husband and the resulting writ was an encumbrance on the land.



The Writ of Summons for the amount of the oil company claim was served on Mr. A. on the 11th of May 1966. He was ill, unemployed, and unable to retain a lawyer to represent him. Judgment was entered in default of appearance.

Accordingly seven years after the former operator terminated, the 64 year old wife is attempting to raise money by way of mortgage on her little house which is not yet paid for to pay the debt owing by her invalid husband to the oil company.

Mr. A is the Operator described in Table 89 which shows the history of this particular multiple termination station. The next five operators who followed Mr. A each stayed in business for less than a year and each lost money. Mr. A's main mistake was trying too long and too hard to keep this station open for the sale of its brand name products to the public. It seems to the Committee that the oil company should forgive this fault.

However, this gigantic oil company with its tremendous resources has mercilessly pursued the unfortunate operator for several years to enforce its legal rights to collect every penny that it can. The oil company knows from the subsequent history of this particular station that it is an uneconomic location. The oil company should recognize that some part of the fault for trying to keep this uneconomic location operating is theirs, but they have shown no inclination to abandon their claims against this helpless unfortunate family whose principal fault was to do as the oil company requested.

#### **(7) The Atmosphere of Distrust, and Enforcement by Threats**

It was constantly amazing to the Committee how much hostility and distrust service station operators felt for their oil companies, even in the case of new operators who had relatively little experience with the company. Something about the way the operator is ordinarily treated by the oil company or by its sales representative seems to sow the seeds of suspicion or doubt respecting the intentions or good faith of the oil company in its dealings.

The first encounter or confrontation usually does not lead to an outright break where contracts are enforced to the limit, but the operator's actions make it clear that he doesn't trust the oil company and is afraid of what it will do unless he protects himself. His action displays his lack of faith in the oil company and the oil company's reaction appears to justify his fears. This kind of situation is illustrated by an interview with an operator in an Alberta city taken from our files.

When "X" was considering leasing a station, the oil company representative verbally offered the inducement of its guaranteed income plan. "X" understood this to guarantee him an income of \$500.00 per month whether or not the sales from the station were sufficient to produce this income. He accordingly moved into the station at the first of the month, but did not receive any written commitment relating to the guaranteed income. At the end of the first month he withheld his rent because of his growing concern over the oil company's failure to provide this commitment.

Accordingly the sales representative accompanied by the District Supervisor called on the operator to discuss his refusal to pay his first month's rent. He confirmed his intention of withholding the rent until he received written notification that he was placed on the guaranteed income plan. The District Supervisor assured the operator that he was on the plan, but it would take time to have it set up and confirmed.

When the operator indicated he intended to withhold his rent until that time, the oil company representatives advised him that he would not receive any gasoline until his rent was paid.

The operator was requested to measure the gasoline left in his tanks and he did so, accompanied by the sales representative. He gave the sales representative an



incorrect reading, leading him to believe there was considerably less gasoline than there actually was. The District Supervisor and the sales representative left the station, under the impression that the gasoline wouldn't last the week-end.

After the week-end the operator phoned the oil company bulk plant to tell them he was out of gasoline (although he still had a supply left in his tanks). He made up a sign for one pump reading— "Sorry for the inconvenience. No (brand-name) left. (Name of oil company) refuses to deliver. For further particulars phone (name of oil company)".

The operator arranged with a friend to park his car a short distance away but within sight of the station.

When the oil company sales representative arrived as expected, the operator attached the sign to the pump. The operator's friend then drove up to the pumps, read the sign and drove away. When the sales representative saw this happen he told the operator that he couldn't post such a sign. The operator replied that everything on the sign was true and that if he didn't get his gasoline he was going to telephone the daily newspaper.

The sales representative left and returned with the District Supervisor and they again asked for the rent. The operator again refused to pay the rent until he received the written verification of the guaranteed income plan. At this point he was told that he had broken his lease for non-payment of the rent and that his lease was terminated immediately unless the rent was paid.

The operator requested a short time to check his stock. He estimated roughly that there was enough stock left to enable him to recover his initial investment in the event of his termination. When the sales representative and the District Supervisor realized that the operator was prepared to give up the station they renewed their discussions.

In the end the operator received the written verification relating to the guaranteed income plan, he then paid the rent he had withheld, and the oil company resumed its gasoline deliveries.

No matter what action or omission of the oil company gave rise to his first doubts, his suspicions about how the oil company would act were confirmed, when within less than two months of his commencement to operate the station, he was faced with threats that his gasoline supply would be cut off and that his lease would be terminated.

Strained relationships of this nature appear to be commonplace, although they are neither healthy nor happy. Very considerable numbers of operators have had personal experiences of this sort, so they are both suspicious of the intentions of the oil company and fearful of the possible consequences of disagreement, of which they are acutely aware.

The Sales Representative, with both sales functions and supervisory functions, is the main point of contact between the oil company and its operators. The sales representative has extensive power to influence the day to day operations as well as the future and security of an operator with whom he deals. Some inexperienced sales representatives may not use good judgment or exercise discretion in wielding the powers delegated to them by the oil company. In their desires to meet their sales quotas they may offer inducements or threaten sanctions which might not have the approval of their oil company and which may not truly mirror its policies.

This may account in some measure for the attitude of service station operators, but the feeling of lack of security and the deep seated distrust that most operators feel for the oil companies is so widespread that it cannot be fully accounted for by the actions of a few inexperienced sales representatives.

In the opinion of the Committee the attitude of the operators is the result of oil company contracts and the methods customarily used to enforce them.



## PART 6

### THE ECONOMICS OF SERVICE STATION OPERATIONS

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## PART 6

# THE ECONOMICS OF SERVICE STATION OPERATIONS

## CHAPTER 21. COSTS AND PROFITS OF DIVISIONS OF SERVICE STATION BUSINESS

### (1) Three Divisions of Service Station Business

The business conducted by a service station can be classified broadly into three general divisions which differ greatly in profitability.

The three divisions of the service station business are:

- (a) the gasoline sales division;
- (b) the merchandise sales division; and
- (c) the repair division.

The mark-up on gasoline is approximately 8c on a gallon which sells for 40c which is a mark-up of 20%. The mark-up on merchandise such as tires, batteries, fan belts, air cleaners and other items offered for sale varies from item to item, ranging from a low of about 10% to a high of about 35%, but averages approximately 20%. The mark-up on repair parts similarly varies from item to item within a range of from 10% to 45%, but would average out roughly to around 20% to 22%. Accordingly the mark-ups on the items sold by each of the three divisions is roughly similar.

Labor accounts for the main difference in profitability between the three divisions.

In the gasoline division there is no direct charge to the motorist for the services of the pump attendant so the entire cost of the gasoline labor has to be deducted from the profit on gasoline sales.

In the repair division on the other hand there is a direct charge to the customer for repair labor. The mark-up on repair labor is usually about 100%. Accordingly in the repair division the service station operator gets a 20% mark-up on parts which is not reduced by any labor cost, and in addition he gets a 100% mark-up on the repair labor. The operator's profit in the repair division consists of his full mark-up on parts plus his full mark-up on the repair labor.

The merchandise sales division of a service station's business in profitability lies somewhere between gasoline sales on the one hand and repair on the other. Across the counter sales of merchandise which the customer carries away, or sales of merchandise such as air cleaners for which no specific labor charge for installation is paid by the customer, are similar to gasoline sales in that the profit resulting from the mark-up on the merchandise has to be reduced by the cost of the sales labor. In the case of merchandise sold which has to be installed such as new batteries, new tires, fan belts, and other accessories there are cases where there is a specific charge for installation labor, in addition to the cost of the merchandise. This installation labor is sometimes charged to the customer below cost, sometimes at approximate cost, and sometimes above cost. The service station operator recovers from the customer part or all of the cost of installation labor and sometimes a profit on installation labor. Accordingly in the merchandise sales division the service station operator's profit from the mark-up of merchandise is reduced by the cost of sales labor not charged to the customer and by the cost of installation labor which is not charged to the customer, but it is increased by installation labor which is charged out to the customer at a profit.

For the service station operator his rate of profit is:

- (a) lowest in the gasoline sales division;
- (b) higher in the merchandise sales division; and
- (c) highest in the repair division.

In Part 3 where we classified service stations by the nature of their business opportunity different classifications of service stations had different sales ratios approximately as follows:

Class of Service Station	Gasoline Sales	Other Sales
Highway service stations .....	90%	10%
Urban highway stations .....	75	25
Urban arterial stations .....	70	30
Urban neighborhood stations .....	65	35

In the above classification "other sales" include both merchandise sales and the sales of the repair division.

Generally service stations have a high volume of gasoline sales on which there is a low rate of profit and they have a lower volume of other sales on which there is a higher rate of profit. Although the rate of profitability of the repair division greatly exceeds that of the merchandise sales division, the two are usually lumped together in the records of most service stations under the classification of "other sales".

Generally the cost of all labor is also lumped together, which obscures the high cost of labor used to dispense gasoline, and doesn't reveal the profitability of labor used for repair.

This is illustrated by an article published by Texaco for its dealers which read as follows:

#### "ANALYZING YOUR BUSINESS NEEDS"

It's easier to make a profit if you know in advance what your business needs are — and then operating to meet those needs. Let's say you have a 20,000-gallon (per month) station. You can make an advance estimate of your requirements in a few simple steps like these:

1. Figure your monthly Overhead Expenses (employee's wages, station supplies, rent, etc.) and add in your own salary and any monthly payments on notes. Let's call this your Monthly Pay Out and say it comes to \$2,884.
2. Next, figure the Profit Revenue on your 20,000-gallon Gasoline Sales. At a profit margin of 6c per gallon, this would come to \$1,200.
3. Subtract the Gasoline Profit (\$1,200) from the Monthly Pay Out (\$2,884), leaving a **deficit** of \$1,684.

In other words, you have to make an additional \$1,684 to **BREAK EVEN**. The additional profit revenue to do this must come from Other Sales: motor oil, TBA, lubrication, labour and miscellaneous.

4. The profit margins on Other Sales average about 50% (from about 20% on tires to 100% on labour). So, to eliminate the \$1,684 deficit, you need \$3,368 in Other Sales to **BREAK EVEN**. (50% profit margin on \$3,368 in Other Sales brings in \$1,684 Profit Revenue.)
5. To make a good Net Profit, you need to do a well-balanced selling job in Other Sales. For a 20,000-gallon station, monthly Sales Objectives can be set up like these:

Item	Monthly Sales	Daily Sales
Motor Oil .....	\$ 520.00	\$17.42
Tires & Tubes .....	960.00	32.00
Batteries .....	168.00	5.60
Accessories .....	1,080.00	36.00
Lubrication .....	195.00	6.45
Labour & Service .....	1,232.00	41.00
Gear Oils & ATF and Misc. ....	345.00	11.50
<b>TOTAL</b> .....	<b>\$4,500.00</b>	<b>\$149.97</b>

Note that the Monthly Sales of these items come to \$4,500 which is \$1,132 above the sales (\$3,368) needed to **BREAK EVEN**. At 50% profit margin on the \$1,132, this gives a Net Profit of \$566.

Here's the whole idea boiled down into a short formula:

Monthly Overhead Expenses, Dealer	
Salary and Payments on Notes .....	\$2,884
Profit Revenue from Gasoline Sales .....	1,200
Deficit to be made up by Profit Revenue	
from Other Sales .....	1,684
Multiply by 2 to find Other Sales to .....	X 2
<b>BREAK EVEN</b> .....	<b>\$3,368</b>
Net Profit: 50% of Other Sales above \$3,368.	

Note that the Objectives of Monthly Sales by items is broken down into Daily Sales. This lets you see what you need to sell daily. Then every day you can check what you actually sell against what you should sell — and put special selling effort behind any items that are too low."



(2) Profit Comparisons between Divisions, after labor

As a general rule service station operators do not calculate or compare the profitability of the three main divisions of their business.

It would be quite easy for them to do so and would probably lead to an increase in their revenues.

One of the most important costs to allocate between the three divisions is the cost of labor.

In a large outlet where there are mechanics who do nothing but repair work and pump attendants who do nothing but dispense gasoline it is easy to determine and allocate labor costs.

In smaller outlets where an employee divides his time as required between selling gas, selling merchandise, or performing repairs, it is necessary to similarly divide and allocate the labor cost of that employee.

However, in respect of each employee the operator can usually estimate with reasonable accuracy what proportion of the time of that employee is spent in the four main activities namely — gasoline sales, merchandise sales, repair labor, and in administration and miscellaneous duties. The employee's time spent in each activity can be multiplied by his hourly rate to determine the portion of his labor to be charged to each of the divisions of the service station business.

Several operators made such estimates and calculations in answer to question 101 to 106 inclusive of the service station questionnaire.

The Committee is satisfied from numerous interviews with operators and from examining the books and financial statements of such operators that they can make such estimates of time and allocations of cost with reasonable accuracy.

The allocation of labor costs made by the operators of several stations in Edmonton and Calgary, is shown in table 35.

Table 35.  
Allocation of Labor Costs<sup>a</sup> (including operator)

Gallonage	Sales Ratio	Petroleum Labor	Merchandise Labor	Repair Labor	Admin. & Misc. Labor
181,410	78% / 22%	\$ 7,573	\$ 620	\$ 5,241	\$ 774
147,203	51% / 49%	6,968	2,018	7,368	1,638
169,346	66% / 34%	2,926	796	4,689	1,797
221,000	70% / 30%	9,434	2,831	4,683	3,013
147,842	63% / 37%	4,293	2,182	9,454	905
152,847	65% / 35%	2,034	827	6,949	1,211
173,000	70% / 30%	9,198	2,083	5,241	3,433
203,600	56% / 44%	6,796	5,562	12,547	5,080
203,625	75% / 25%	8,495	1,982	4,232	2,992
152,749	73% / 27%	9,245	940	2,484	1,700
260,740	81% / 19%	6,835	3,068	4,100	1,368
177,700	66% / 34%	7,508	1,747	4,818	2,636
183,855	71% / 29%	9,150	480	4,300	1,770
168,900	67% / 33%	7,610	3,223	3,700	4,033
175,000	61% / 39%	5,220	1,911	6,870	2,622
259,000	78% / 22%	9,533	1,969	4,541	3,015
162,870	70% / 30%	8,672	770	3,670	1,742
233,100	60% / 40%	10,892	1,290	5,140	6,500
3,373,787		\$132,372	\$34,309	\$100,027	\$46,229
187,433	68% / 32%	42.3%	11.0%	32.0%	14.7%
Total all Labor (including operator)					\$312,938
Average Labor cost per station					\$ 17,385 <sup>b</sup>

(a) Question 102 — Service Station Questionnaires.  
(b) For a 200,000 gallon station see: Actual Economic Model. Tables 41 and 42.

Labor costs in a service station vary from station to station depending on such variables as volume of business, type of business and sales ratios, number of employees, and hourly rates actually paid.

The Committee in its calculations was desirous of using realistic figures and we sought information from various sources.

CHART 33

# **PROFIT COMPARISON**

(After labor Without Allocation of Overhead)

BETWEEN DIVISIONS OF SERVICE STATION BUSINESS

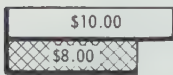
BASED ON \$10.00 SALES OF PETROLEUM PRODUCTS, MERCHANDISE AND REPAIR PARTS

## PETROLEUM PRODUCTS DIVISION

SALE OF PETROLEUM

TOTAL SALES

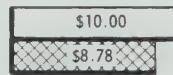
PROFIT



+  
+

NIL

=  
=



\$1.22

COST OF PETROLEUM  
PRODUCTS

COST OF LABOR

TOTAL COSTS

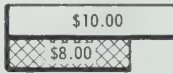
## MERCHANDISE DIVISION

SALE OF MERCHANDISE

SALE OF LABOR

TOTAL SALES

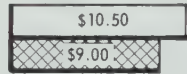
PROFIT



+  
+



=  
=



\$1.50

COST OF MERCHANDISE

COST OF LABOR

TOTAL COSTS

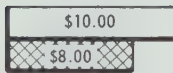
## REPAIR DIVISION

SALE OF PARTS

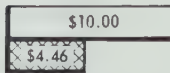
SALE OF LABOR

TOTAL SALES

PROFIT



+  
+



=  
=



\$7.54

COST OF PARTS

COST OF LABOR

TOTAL COSTS

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

CHART 34

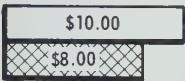
# **PROFIT COMPARISON**

(After labor Without Allocation of Overhead)

BETWEEN DIVISIONS OF SERVICE STATION BUSINESS  
BASED ON EQUAL TOTAL SALES IN EACH DIVISION

## PETROLEUM PRODUCTS DIVISION

SALE OF PETROLEUM  
PRODUCTS



+  
+

SALE OF LABOR



=  
=

TOTAL SALES



PROFIT

\$1.22

COST OF PETROLEUM  
PRODUCTS

COST OF LABOR

TOTAL COSTS

## MERCHANDISE DIVISION

SALE OF MERCHANDISE



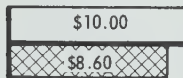
+  
+

SALE OF LABOR



=  
=

TOTAL SALES



PROFIT

\$1.40

COST OF MERCHANDISE

COST OF LABOR

TOTAL COSTS

## REPAIR DIVISION

SALE OF PARTS



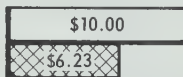
+  
+

SALE OF LABOR



=  
=

TOTAL SALES



PROFIT

\$3.77

COST OF PARTS

COST OF LABOR

TOTAL COSTS

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



In eight stations owned and operated by oil companies

- (a) the average salary of the operator was \$5,285.00;
- (b) the average salary of the mechanic was \$5,015.00; and
- (c) the average wage cost for all pump attendants was \$11,063.00.

The Committee interviewed the lessee operators of 18 stations in Edmonton and Calgary and examined their financial statements

- (a) the average earnings of the operators was \$5,593.00;
- (b) the average wage cost for all other employees was \$11,792.00 (including the mechanic).

In these outlets the average labor cost per station of \$17,385.00 including the operator was allocated.

- (a) 42.3% — petroleum sales labor
- (b) 11.0% — merchandise sales labor
- (c) 32.0% — repair labor
- (d) 14.7% — administrative and miscellaneous labor.

Wages and hours were checked in a group of approximately 30 stations in Edmonton and Calgary. As a general rule all full time employees worked 44 hours per week. The average wages paid in these stations were approximately as follows—

- (a) the mechanic ..... \$2.00 per hour;
- (b) the apprentice mechanic ..... \$1.75 per hour;
- (c) lube rack and tire repair ..... \$1.50 per hour;
- (d) full time pump attendants ..... \$1.50 per hour;
- (e) part time pump attendants ..... \$1.25 per hour.

### (3) Costs of Gasoline Sales

Gasoline sales usually constitute a large percentage of the total sales of any service station. However, the Committee interviewed numerous service station operators and examined their books and found that after deducting the cost of gasoline and the cost of labor to dispense the gasoline there was little if anything left to pay for all the other overhead costs. The overhead costs such as utilities, rent, maintenance, accounting, etc., were necessarily incurred to enable the sale of gasoline and some portion of them has to be charged to gasoline sales. No matter what method of allocation was used the Committee found in the case of many service stations that they were losing money on every gallon of gasoline they sold. Profits from other divisions of the service station business or profits from other businesses in which the service station operator was engaged were used to cover the losses on gasoline and to keep the outlet open for gasoline sales.

If a pump attendant is paid \$1.50 per hour his time costs 2½c per minute.

<b>If the pump attendant serves one customer:</b>	<b>Labor Cost per Customer</b>	<b>Approx. Labor Cost per Gallon</b>
Every 5 minutes	12½c	1¾c
Every 10 minutes	25 c	3½c
Every 25 minutes	62½c	9 c

If the average purchase is 7 gallons per customer and the station has a mark-up of 8 cents per gallon it earns 56 cents per customer.

Small variations in cars per hour or time spent by pump attendants waiting for gasoline sales may be the difference between profit and loss.

**Gasoline Volume  
Gasoline Earnings  
Cost of Gasoline Labour**

**Assumptions:—**

(a) Average purchase per customer .....	6 or 7 Gallons
(b) Service station year .....	300 days
(c) Service station hours .....	12 hrs. per day
(d) Average service station mark-up .....	8c per Gallon

<b>Annual Gallorage</b>	<b>Average Purchase per Customer</b>	<b>Customers per year</b>	<b>Customers per day</b>	<b>Approx. Customers per hour</b>
100,000	6 or 7 Gal.	15,000	50	4 or 5
150,000	6 or 7 Gal.	22,500	75	6
200,000	6 or 7 Gal.	30,000	100	8
250,000	6 or 7 Gal.	37,500	125	10 or 11

**Gross Gasoline Earnings**

<b>Annual Gallorage</b>	<b>Per Year</b>	<b>Per Day</b>	<b>Per Hour</b>
100,000	\$ 8,000	\$26 or \$27	\$ 2.20
150,000	\$12,000	\$40	\$ 3.30
200,000	\$16,000	\$53 or \$54	\$ 4.50
250,000	\$20,000	\$66 or \$67	\$10.40

If the actual wages paid per hour to all persons for the hours actually spent in selling gasoline, when averaged, exceeds the gross gasoline earnings per hour then the service station is losing money on its gasoline sales.

The Committee found that 62% of retail outlets interviewed lost money on gasoline sales. The calculations were based on actual gallonage sold, actual wages paid, and actual mark-ups used, overhead being allocated by profit after labor (Table 44).

**Assumptions:—**

- |   |                 |
|---|-----------------|
| (a) Average purchase per customer .....   | 7 Gals          |
| (b) Average Service Station mark-up ..... | \$ .08 per Gal. |
| (c) Hourly wage of pump attendant .....   | \$1.50 per hour |
| (d) Hourly wage of mechanic .....         | \$2.50 per hour |
| (e) Service Station hours .....           | 12 hrs per day  |
| (f) Service station year:                 |                 |

300 days open

## Wages Payable

	Full Time Man		Part Time Man		Total Wage Cost
Per hour .....	\$ 1.50	+		=	\$ 1.50
Per 8 hour shift .....	12.00	+		=	12.00
Per 12 hour day .....	12.00	+	6.00	=	18.00
Per 300 day year .....	3,600.00	+	1,800.00	=	5,400.00

The gasoline sales volume required to pay the wage cost of one pump attendant is

	Approx. No. of Customers	Approx. Gal. per Customer	Total Gals.	Mark-up per Gal.	Station Earns
Per hour .....	2 or 3	x 7 =	19	x 0.08 =	\$ 1.52
Per 8 hr. shift .....	21	x 7 =	150	x 0.08 =	12.00
Per 12 hr. day .....	32	x 7 =	225	x 0.08 =	18.00
Per 300 day year .....	9,645	x 7 =	67,500	x 0.08 =	\$5,400.00



CHART 35

THE GROSS PROFIT ON 67,500 GALLONS OF GASOLINE IS REQUIRED  
TO PAY THE ANNUAL COST OF A PUMP ATTENDANT

\$1.50 PER HOUR



67,500 GALLONS PER YEAR

THERE ARE 1840 GASOLINE OUTLETS IN ALBERTA  
WHICH SELL LESS THAN 67,500 GALLONS PER YEAR.

THIS IS ALMOST 60% OF ALL OUTLETS

If the mechanic leaves his service bay to help on the pumps during busy hours his wage is higher than the pump attendant's, so more gas has to be sold to recover the cost of his time at the pumps. If the mechanic is paid \$2.50 per hour, the gasoline sales volume required to pay his wage is:—

	Approx. No. of Customers	Approx. Gal. per Customer	Total Gals.	Mark-up Per Gal.	Station Earns
Per hour -----	4 or 5	x 7	= 32	x 0.08	= \$2.56

The operator normally charges a 100% mark-up on the mechanic's time. If the mechanic produces as much revenue from his time at the pumps as he produces in his service bay, namely \$5.00 per hour, he would have to sell

	Approx. No. of Customers	Approx. Gal. per Customer	Total Gals.	Mark-up per Gal.	Total Station Earns	Hourly Revenue Produced by Mechanic
Per Hour --	9	x 7	= 63	x 0.08	\$5.04	\$5.00

If the mechanic is interrupted from doing repairs to go to the pumps, it takes him longer to service a car than the pump attendant who is at the pumps and has no other duty. Accordingly, the operator is lucky if the mechanic pumps enough gas per hour to earn the amount of the mechanic's wages.

However, if the mechanic had continued to work on repair for that hour the operator could charge the repair customer \$5.00 per hour for the mechanic's time, half of which would cover the mechanic's wage and the balance would be profit to the operator. The operator usually loses \$2.50 per hour profit on the mechanic's time for the time his mechanic leaves repair work to help on the pumps.

CHART 36

GASOLINE VOLUME REQUIRED

TO PAY THE PUMP  
ATTENDANT'S WAGE  
AT \$1.50 PER HOUR



19 GALLONS PER HOUR

TO PAY MECHANICS WAGES  
AT \$2.50 PER HOUR



32 GALLONS PER HOUR

TO PRODUCE THE SAME REVENUE  
AS THAT PRODUCED BY A MECHANIC  
WORKING ON REPAIRS  
AT \$5.00 PER HOUR



63 GALLONS PER HOUR



Table 36.

**Average Cost of Selling a Gallon of Gasoline in Cents**  
(Overhead Allocated by Dollar Volume of Sales)

	All Outlets	Service Stations	Leased S.S.	Owned S.S.	Leased S.S. City	Owned Outlets Rural	Highway S.S.
Method A	9.32c	8.62c	8.49c	9.05c	8.71c	8.81c	8.46c
Method B	7.97c	8.16c	8.14c	8.39c	8.23c	7.98c	7.97c
No. of Replies	320	176	128	47	90	25	14

Source: Service Station Questionnaires, Question 100 to 106.

Method A — Average of cost per gallon figures for each station in category.

Method B — Total cost of gasoline sales for all stations in category compared with total gallonage sold by all stations in category.

The formula used for calculating the cost of selling a gallon of gasoline was:

$$\frac{\text{gasoline labor} + \text{gasoline percentage of overhead}}{\text{gasoline gallonage sold}} = \text{c per gal.}$$

**Gasoline Labor** is the labor cost for gasoline sales, being that portion of each employee's salary paid for the time he actually spends dispensing gasoline.

**Gasoline Overhead**, is a percentage of the total overhead expense corresponding to the percentage that gasoline sales in dollars is of total sales in dollars of all items including gasoline, T.B.A., and repairs. Overhead includes rent or depreciation, utilities, labor for administration and clean-up and maintenance, and other service station expenses.

The total labour cost incurred in selling gasoline was added to a percentage of the overhead. This percentage of overhead was calculated on the basis of the dollar volume of gasoline sales to all sales. The total cost was then divided by the total gallonage sold for the year. This gives a cost in cents per gallon and is the cost to pump one gallon of gasoline.

#### (4) Profit on T.B.A.

The average T.B.A. mark-up of approximately 20% is reduced by various items of expense which differ from one item of merchandise to another.

The gross profit on merchandise is the amount by which the sale price exceeds the cost of the merchandise. In every case this gross profit is reduced

- (a) by the cost of the sales labor involved in selling the merchandise; and
- (b) by a share of the overhead cost incurred to enable the sale of merchandise.

If the merchandise sold requires installation on the customer's vehicle, the gross profit on the sale is still further reduced by the cost of the installation labor and incidental overhead costs.

In a service station tires are frequently one of the items accounting for a substantial proportion of the volume of merchandise sales.

In the outlets of one brand there is a mark-up or commission on tire sales of 10%, and if in the course of a year a designated volume of sales is reached there is a further 8% volume bonus.

Tires are a competitive item of merchandise, and to make sales the service station operator frequently gives competitive discounts. Some service station operators pay their employees a commission for each tire sold which encourages them

to look for customers who need new tires. The motorist who buys tires usually wants them installed on his vehicle. Many service stations make no charge for the removal of old tires and the installation of new ones, and in such cases the gross profit on tires has to be reduced by the cost of the installation labor and the incidental overhead.

Some of the expenses which reduce the gross profit on tires are shown in the following illustration of an urban service station selling approximately 500 tires per year which volume was sufficient to earn the volume bonus of 8% offered by the oil company. In this illustration the expenses incurred in connection with tire sales are equal to the revenue from tire sales, and the only profit at year end was the 8% volume bonus.

Table 37.  
Profit on T.B.A.  
Tires  
Annual Sales — 500 Tires

	Per Year		Per Tire	
	Exp.	Rev.	Exp.	Rev.
Tires sold .....		\$10,500		\$21
Cost of tires .....	\$8,500		\$17	
Competitive discounts .....	500		1	
Sales commissions .....	500		1	
Labor (to remove old & mount new) .....	500		1	
Overhead (use of bay, hoist, tools, etc.) .....	500		1	
	<u>\$10,500</u>	<u>\$10,500</u>	<u>\$21</u>	<u>\$21</u>
Volume bonus — 8% x \$10,500 .....		\$840		\$1.68

In most service stations sales are broken down to show “gasoline sales” and “other sales”. The sales ratios in common use by oil companies similarly express the relationship of “gasoline sales” to “other sales”.

“Other sales”, which include sales of the merchandise division and sales of the repair division are clearly more profitable than gasoline sales.

In the chapter on T.B.A., in the section dealing with dealer profit, tables 26, 27, 28 and 29 contain sample calculations done by oil companies. In both tables 26 and 27 where the sales ratio of gasoline to other sales was 70/30, or more than twice as large, the gross profit on “other sales” was greater than the gross profit on the much larger volume of gasoline sales.

In the six stations in these two tables the gross profit on gasoline in each case was less than 20%, whereas the gross profit on other sales in each case was closer to 50%.

Accordingly, an increase in other sales of \$1,000 produces a profit of close to \$500 for the operator. It takes an increase in gasoline sales of 6,250 gallons or \$2,500 to give the operator a similar profit of \$500.

Texaco in its analysis of service station sales as published in the first item in the beginning of this chapter concluded that the operator should make a net profit of 50% of other sales above the minimum required to break even.

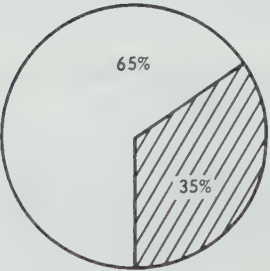
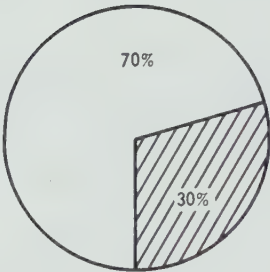
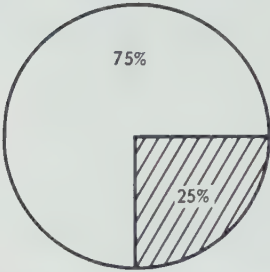
According to the oil company calculations shown in these tables the effect on dealer earnings of small increases in the ratio of other sales to total sales is illustrated in the following charts.

**"OTHER SALES" AND DEALER PROFIT**

A SMALL PERCENTAGE INCREASE IN THE RATIO OF 'OTHER SALES'  
TO TOTAL SALES PRODUCES A LARGE PERCENTAGE INCREASE

IN DEALER EARNINGS  
(150,000 GALLON STATIONS)

SALES RATIO



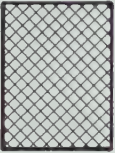
GASOLINE SALES



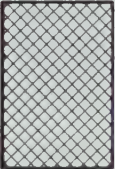
'OTHER SALES'

DEALER PROFIT

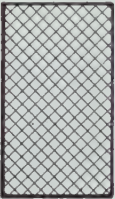
\$6,300



\$7,200



\$8,300



BASED ON OIL COMPANY  
CALCULATIONS.  
TABLE 26

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

Table 38.

**"Other Sales" and Dealer Profit**

(Three stations each with gasoline sales of 150,000 gallons)  
(Refer to Table 26)

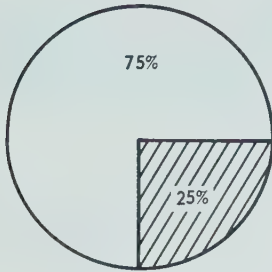
Percentage of other sales to total sales .....	25%	30%	35%
Dealer net earnings .....	\$ 6,300	\$ 7,200	\$ 8,300
However, it is to be noted that this requires increases in dollar volume of other sales of the following magnitude	\$20,000	\$25,700	\$32,300



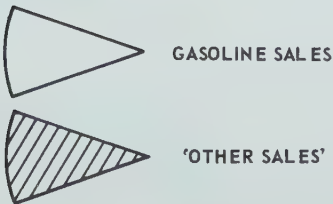
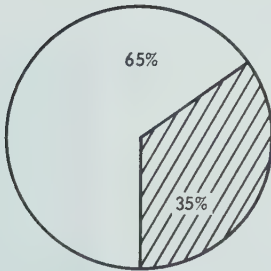
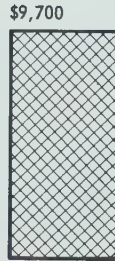
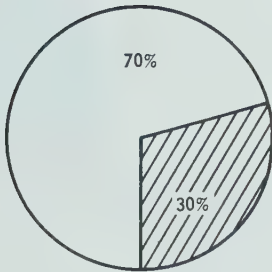
# **"OTHER SALES" AND DEALER PROFIT**

**A SMALL PERCENTAGE INCREASE IN THE RATIO OF 'OTHER SALES'  
TO TOTAL SALES PRODUCES A LARGE PERCENTAGE INCREASE  
IN DEALER EARNINGS  
( 250,000 GALLON STATIONS)**

SALES RATIO



DEALER PROFIT



BASED ON OIL COMPANY  
CALCULATIONS.  
TABLE 27

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

Table 39.

## **"Other Sales" and Dealer Profit**

**(Three stations each with gasoline sales of 250,000 gallons)**

(Refer to Table 27)

Percentage of other sales to total sales .....	25%	30%	35%
Dealer net earnings .....	\$ 8,520	\$ 9,700	\$11,040
However it is to be noted that this requires increases in dollar volume of other sales of the following magnitude	\$33,330	\$42,850	\$53,850

Table 40.

**"Other Sales" and Dealer Profit**

(Two stations each with gasoline sales of 150,000 gallons)

(Refer to Tables 28 and 29)

Percentage of other sales to total sales .....	15%	30%
Dealer net earnings .....	\$ 6,900	\$ 9,500
However it is to be noted that this requires increases in dollar volume of other sales of the following magnitude .....	\$11,000	\$26,800

CHART 39

**"OTHER SALES" AND DEALER PROFIT**

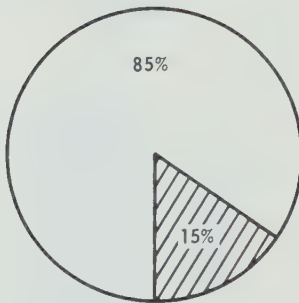
A SMALL PERCENTAGE INCREASE IN THE RATIO OF 'OTHER SALES'

TOTAL SALES PRODUCES A LARGE PERCENTAGE INCREASE

IN DEALER EARNINGS

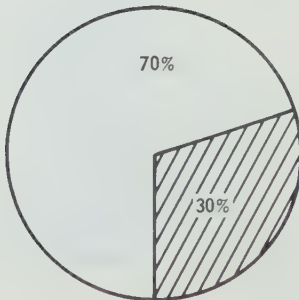
(150,000 GALLON STATIONS)

SALES RATIO



DEALER PROFIT

\$6,900



\$9,500



GASOLINE SALES



'OTHER SALES'

BASED ON OIL COMPANY  
CALCULATIONS  
TABLES 28 AND 29

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

A small percentage increase in "other sales" produces a large percentage increase in dealer earnings. However the small percentage increase in other sales represents a large increase in dollar volume.

## **(5) Profit on Repair Division**

To obtain a true understanding of the profitability of the repair division of a particular service station, you need to know the volume of repair parts sold. The records of most service stations do not separate T.B.A. and other merchandise from repair parts, although this could be readily provided for. However, in any service station if you take a good sized sample of the invoices to customers for repair work done, it can be determined on the average with reasonable accuracy what percentage of total billing is for repair labor and what percentage is for repair parts. Station records usually record labor sales, virtually all of which is repair labor. Knowing the amount of labor sold, and the average ratio of repair labor to repair parts, this will enable the operator to calculate the profitability of his repair division as distinct from the profitability and costs of his merchandise sales division.

The operator's books and records would be of much more practical use to him if they provided such information and would help him to operate at a profit.

As sales of repair parts are not recorded separately from sales of other merchandise in most service stations, and as the Committee was desirous of having some index to measure the volume of parts sold by service stations, selected urban stations made available to the Committee copies of large numbers of their repair invoices.

The ratio of repair labor to repair parts varied widely from invoice to invoice, but on the average repair labor accounted for approximately 49% of the amounts invoiced and repair parts accounted for 51%. The results from different stations were remarkably similar.

As a rough rule-of-thumb it accordingly appears that the invoices of the repair division of a service station will be 50% repair labor and 50% repair parts. In a service station where sales of repair labor amount to \$10,000 it can be expected that sales of repair parts will be approximately the same amount.

In the repair division the 20% average mark-up on parts is not reduced by any labor cost. The repair labor of the mechanic is sold at a 100% profit. Gross profits on sales of repair labor and repair parts are reduced only by the repair division's appropriate share of overhead costs.

It is clearly the most profitable division of a service station's business.

## **(6) Overhead Costs**

In addition to the labor cost which can be allocated to each division of the service station business, each division must also bear an appropriate share of the other costs.

There are a large number of other costs such as heat, light, power, telephone, service truck or vehicle, maintenance, accounting, advertising, licenses, allowances for bad debts, stationery and office supplies, occupancy costs (either rent paid to owner or depreciation and taxes), laundry, administrative and maintenance labor not allocated to any division, etc. We will refer to these numerous expenses as overhead. Generally these overhead costs can't be allocated with accuracy to any particular division of the service station business. Some arbitrary method of allocation is accordingly necessary.

One method of allocating overhead is to charge it to each division in proportion to that division's total dollar volume of sales.

Another possible method of allocating overhead would be by distributing it in proportion to the profit of each division after deducting from the total sales the cost of the merchandise sold and the cost of the labor to sell or dispense the merchandise.

The Committee did calculations using both methods and contrasted the results.

Both calculations were done for each of the model service stations illustrating service station costs and revenues shown in charts 43 to 46.



**(7) Profit Per Man Hour  
Pump Attendant (Gasoline Sales Division)**

6 customers buy 7 gals. each @ 40c .....		\$16.80
Cost of Gasoline 42 gals. @ 32c .....	\$13.44	
Cost of Pump Attendant Labor .....	1.50	
Share of Overhead .....	1.91	
Total cost of gasoline sales .....	<u>\$16.85</u>	<u>\$16.85</u>
Net Loss on gasoline sales		(0.05)

**Mechanic (Repair Division)**

Repair Parts sold .....		\$5.00
Cost of Repair Parts .....	\$4.00	4.00
Profit on repair parts		<u>1.00</u>
Repair Labor sold .....		5.00
Cost of Repair Labor .....	2.50	2.50
Profit on repair labor		<u>2.50</u>
Gross Profit of Repair Division .....		3.50
Repair Division Share of Overhead .....	1.14	1.14
Net Profit of Repair Division		<u>\$2.36</u>
Profit per man hour — repair division .....		\$2.36
Deduct loss per man hour — gasoline sales division .....		(0.05)
		<u>\$2.31</u>

CHART 40

# PROFIT PER MAN HOUR

## PUMP ATTENDANT



GASOLINE SALES PER HOUR                      42 gals \$16.80

NET LOSS PER HOUR                              (5¢)

## MECHANIC



REPAIR SALES PER HOUR                      \$10.00

NET PROFIT PER HOUR                          \$2.36

**(8) Cars Per Hour**

The Observation Research Corporation, of New York City did a nation wide survey of the buying patterns of service station customers, on behalf of the Coca-Cola Company and four leading oil companies. The survey found that the average station serves about ten cars an hour (statistically 9.9).

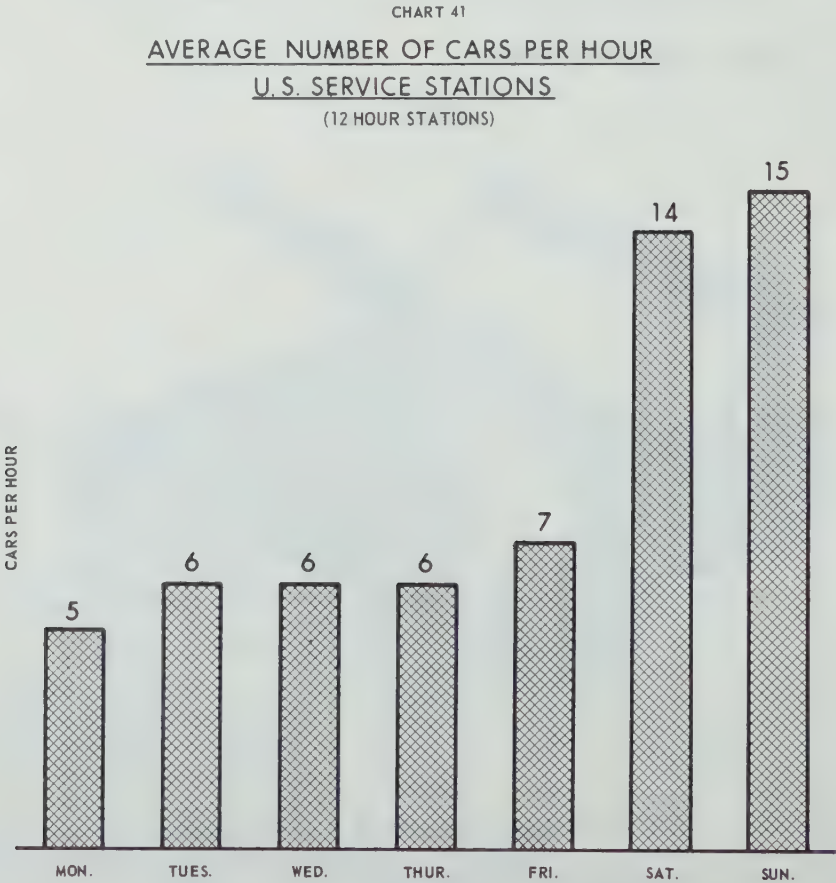
The downtown stations together averaged nine cars per hour. Residential and highway stations averaged ten cars per hour.

Stations pumping the most gallons served more cars per hour (rather than more gallons per car).

On week days, Monday through Friday, there is a slow gradual increase in traffic and in cars per hour served by the average service station. On Mondays the average was five cars per hour, on Tuesdays, Wednesdays and Thursdays the average was six cars per hour and on Fridays the average was seven cars per hour. On the week end the business of the station takes a startling jump.

Saturdays averaged fourteen cars per hour and Sundays averaged fifteen cars per hour. Almost as many cars are served on the week end as in all other days put together.

Our Committee from its observations in Alberta concluded that an efficient pump attendant who is constantly busy can handle a maximum of approximately twelve customers per hour. If he is only serving from five to seven customers per hour from Monday through Friday he has considerable waiting time and the cost of his labor per gallon served is high.



SOURCE: AUTOMOBILUS AMERICANUS BY COCA-COLA CO. LTD.



If on the week end fourteen to fifteen cars per hour require service one pump attendant is unable to cope with the volume of customers and requires the assistance of employees with other duties, or an additional pump attendant is required on a part time basis, who works only on the busy days or during the peak hours.

It appears that the buying patterns of Alberta motorists correspond closely with the general North American pattern.

However, it would appear that many Alberta stations serve fewer cars per hour than the U.S. average. For instance, 59% of Edmonton gasoline outlets and 54% of Calgary gasoline outlets sell less than 150,000 gallons per year. The following table and chart dealing with cars per hour and station gasoline volume indicate that four cars per hour produce 150,000 gallons annually in stations with unrestricted hours and six cars per hour on the average will produce 150,000 gallons in a station operating under a municipal closing by-law such as the one in Edmonton.

**Cars Per Hour  
Station Gasoline Volume**

Assume average purchase per customer = 7 gals.

**Municipal Closing By-Law**

Station open 12 hours per day, 300 days per year.

**1 car per hour x 7 gals x 12 hours x 300 days equals 25,200 gals. per year**

**Average Cars  
Per Hour**

**Approximate  
Annual Gallonage**

4	100,000
6	150,000
8	200,000
10	250,000
12	300,000

**Unrestricted Hours**

Station open 15 hours per day, 350 days per year

**1 car per hour x 7 gals. x 15 hours x 350 days equals 36,750 gals. per year**

**Average Cars  
Per Hour**

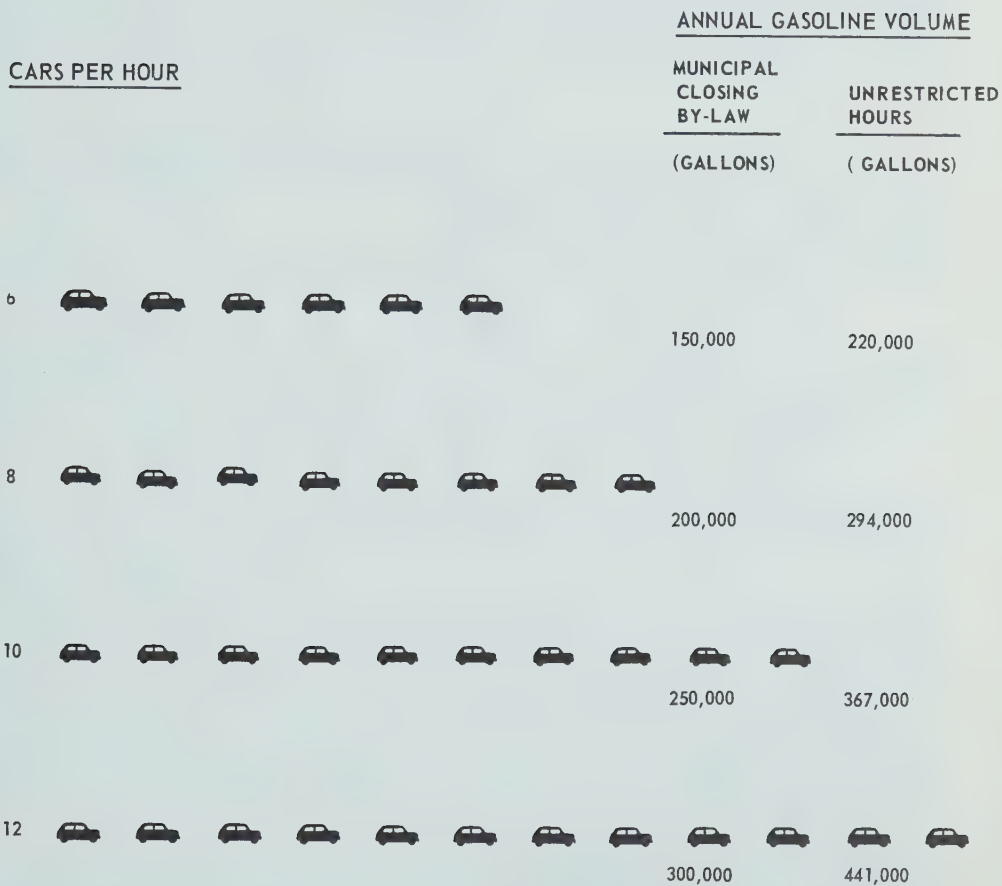
**Approximate  
Annual Gallonage**

3	110,000
4	147,000
5	184,000
6	220,000
7	257,000
8	294,000
10	367,000
12	441,000

CHART 42

# CARS PER HOUR

## SERVICE STATION GASOLINE VOLUME



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



## CHAPTER 22. MODELS ILLUSTRATING SERVICE STATION COSTS AND REVENUES

### (1) Model Service Stations

Service station economics can best be illustrated by calculations using realistic figures. Comparisons of calculations are made easier by using model hypothetical stations with the same gallonage, and the same sales ratios.

A service station with annual gasoline sales of 200,000 gallons, although somewhat above average, is a reasonable gallonage. A sales ratio of 70% gasoline to 30% other sales is reasonable for a good urban station. The service station models in the following calculations are based on the above gallonage and sales ratio.

To enable comparison and varification of items of revenue and expense it appeared desirable to use four sets of calculations, two based on information obtained from service station operators, and two based on information obtained from oil companies.

Service station economics are accordingly illustrated by four sets of calculations as follows:

- (a) by an "actual economic model" of a service station based on averages of actual costs and revenues for the year 1965 of eighteen urban service stations in Edmonton and Calgary whose financial statements were examined by the Committee; and
- (b) by a "theoretical economic model" of a service station, also based on averages of actual costs and revenues, but corrected to show normal conditions by removal of abnormalities which distorted actual figures for 1965, using information obtained from service station questionnaires and interviews; and
- (c) by a "hypothetical model" service station based on estimates obtained from the oil companies in answer to questionnaire 19; and
- (d) by "oil company actual" service stations using the actual figures from 14 service stations owned by oil companies and operated by their employees using their actual revenues and expenses.

In the "actual economic model" the actual revenues, labor costs, and other expenses of 18 urban stations in Calgary and Edmonton were averaged and these figures were used for the model illustrations. However, during the year 1965 many service stations were on commission consignment for part of the year which reduced their normal mark-up on gasoline from 8c a gallon to a commission of 6½c a gallon, and which lowered their average income from gasoline sales. Similarly the lists of persons employed and the amounts paid to each during the year 1965 indicated a considerable turnover of employees many of whom were employed for relatively short periods. It was impossible to determine accurately the number of persons employed at any given time, but the average wage costs appeared higher than many operators thought was theoretically necessary.

In the "theoretical economic model" the Committee made certain assumptions to illustrate a more normal situation than the actual for 1965. For instance, we assumed a constant mark-up of 8.1c per gallon on gasoline for the entire year which increases the revenue from gasoline sales. The Committee also assumed a staff of one operator, one mechanic, one full-time pump attendant, and one half-time pump attendant which produced a somewhat lower labor cost than the actual average in the 18 stations where so many persons were employed for brief periods.

For the "hypothetical model", we asked the oil companies to estimate and detail the revenues and expenses of a hypothetical 200,000 gallon urban station with a 70% /30% sales ratio and the information they provided is shown in tables 45 to 49. In the "hypothetical model" service station, based on the estimates and calculations of each oil company, the total labor cost estimated by each oil company has been allocated by the Committee between the three divisions of the service station in the same ratios as were used in the "theoretical economic model" and the "actual economic model".

Texaco Canada Limited declined to provide the information requested by the Committee in questionnaire 19 and its reply read in part as follows:

“Texaco Canada does not wish to provide specific answers to the five individual questions contained in this particular questionnaire.”

Accordingly Texaco does not appear in the Four Company Comparisons shown in Table 45. However, in a circular published by Texaco for its dealers in December of 1965 from which we quoted at the beginning of Chapter 21, it gave an analysis of a 240,000 gallon station containing many of the items of income and expense we had requested for the hypothetical station. We used these figures with minor modifications to prepare the Texaco hypothetical station shown in Table 49 which is roughly comparable to those of the other companies which provided this information.

In the case of each of the three models, the “actual economic model”, the “theoretical economic model”, and the “hypothetical model” two alternate methods of allocating overhead were used. For each model service station two calculations were done to allocate overhead,

- (a) one by dollar volume of sales; and
- (b) the other by profit after labor.

These calculations enable the “hypothetical model” service station of each oil company to be compared item for item with the “actual economic model” and with the “theoretical economic model” based on data from service station operators.

The final set of calculations are “oil company actual” service stations being stations owned by oil companies and operated by their employees. The three previous models were all based on assumed gallonages of 200,000 gallons and a sales ratio of gasoline to other sales of 70%/30%. In the “oil company actual” calculations, both gallonage and sales ratios vary from station to station.

In the “oil company actual” the first six stations, each having a gallonage less than 200,000 gallons, all show a net annual loss. Of the last eight stations each having gallonages in excess of 200,000 gallons, three operated at a loss and the remainder showed a profit.

The oil company experience in their employee operated stations seems to be closer in results to the “theoretical model” based on data from service station operators, than it is to the “hypothetical model” based on estimates of the oil companies. With the exception of the “Esso hypothetical” model which showed a loss on gasoline sales in one calculation and only a nominal profit on gasoline sales in the other, and a net annual loss for the service station in both calculations, the “hypothetical models” of the other companies showed substantial profits from gasoline sales and net profits in all “hypothetical” stations.

Any service station operator can use his own actual items of revenue and expense and compare item for item with the “theoretical economic model” and the “hypothetical model” for the brand of gasoline he sells and determine how much similarity his service station bears to any of these model service stations.

In the 18 stations used for the actual economic model the projected average total labor cost per station was \$18,551.00. The operators allocated this total cost between the divisions of their service station as follows:—

	%	\$
Gas Pump labor .....	42.3%	\$ 7,847.00
Merchandise sales & installation labor .....	11.0%	2,041.00
Repair Labor .....	32.0%	5,956.00
Administration & Miscellaneous labor .....	14.7%	2,727.00
Total labor cost .....	100.0%	\$18,551.00

In the theoretical economic model the following labor costs were charged as the total labor cost per station.

Operator .....	\$6,000.00
Mechanic .....	5,000.00
1.5 pump attendants .....	5,400.00
<b>Total .....</b>	<b>\$16,400.00</b>

These labor costs were then allocated to the divisions of the service station business in the same percentages as in the actual economic model as follows:—

Gas Pump labor .....	42.3%	\$ 6,937.00
Merchandise sales and installation labor .....	11.0%	1,804.00
Repair labor .....	32.0%	5,248.00
Administration & Miscellaneous labor .....	14.7%	2,411.00
<b>Total labor .....</b>	<b>100.0%</b>	<b>\$16,400.00</b>

## (2) Actual Economic Model

Table 41.  
**ACTUAL ECONOMIC MODEL\***  
(Service Station Questionnaire Data)  
Service Station Overhead Allocated by  
DOLLAR VOLUME OF SALES

<b>Revenue</b>		
Petroleum Products .....		\$ 81,356
Merchandise .....		17,288
Repair Parts .....		10,764
Repair Labor .....		10,764
<b>Total Revenue .....</b>		<b>\$120,172</b>
<b>Petroleum Products</b>		
Petroleum Products Revenue .....		81,356
Cost of Petroleum Products .....	\$67,570	67,570
<b>Gross Profit .....</b>		<b>13,786</b>
Cost of Pump Labor(a) .....	7,847	
Allocation of Service Station Overhead(b) .....	9,272	17,119
<b>Net Loss From Petroleum Products ....</b>		<b>(\$3,333)</b>
<b>Merchandise</b>		
Merchandise Revenue .....		17,288
Cost of Merchandise .....	13,031	13,031
<b>Gross Profit .....</b>		<b>4,257</b>
Cost of Sales and Installation Labor .....	2,041	
Allocation of Service Station Overhead .....	1,970	4,011
<b>Net Profit From Merchandise .....</b>		<b>\$246</b>
<b>Repairs</b>		
Repair Parts Revenue .....		10,764
Cost of Repair Parts .....	8,113	8,113
<b>Gross Profit — Repair Parts .....</b>		<b>2,651</b>
Repair Labor Revenue .....		10,764
Cost of Repair Labor .....	5,936	5,936
<b>Gross Profit — Repair Labor .....</b>		<b>4,828</b>
<b>Gross Profit — Parts and Labor .....</b>		<b>7,479</b>
Allocation of Service Station Overhead .....	2,454	2,454
<b>Net Profit From Repairs .....</b>		<b>\$5,025</b>
<b>SERVICE STATION PROFIT .....</b>		<b>\$1,938</b>

(200,000 Gallon Urban Service Station — 70%/30% Sales Ratio)

\* This model is based on the average revenues and costs of 18 urban service stations located in Edmonton and Calgary.

(a) Total Labor Costs:

Operator's Salary .....	\$ 5,968
Other .....	12,583
<b>TOTAL .....</b>	<b>\$18,551</b>

(b) Overhead:

Rent .....	\$ 3,873
Depreciation .....	1,055
Other Expenses .....	6,041
Administration Labor .....	2,727

\$13,696



CHART 43

## ACTUAL ECONOMIC MODEL

(SERVICE STATION QUESTIONNAIRE DATA)

SERVICE STATION OVERHEAD ALLOCATED BY

### DOLLAR VOLUME OF SALES

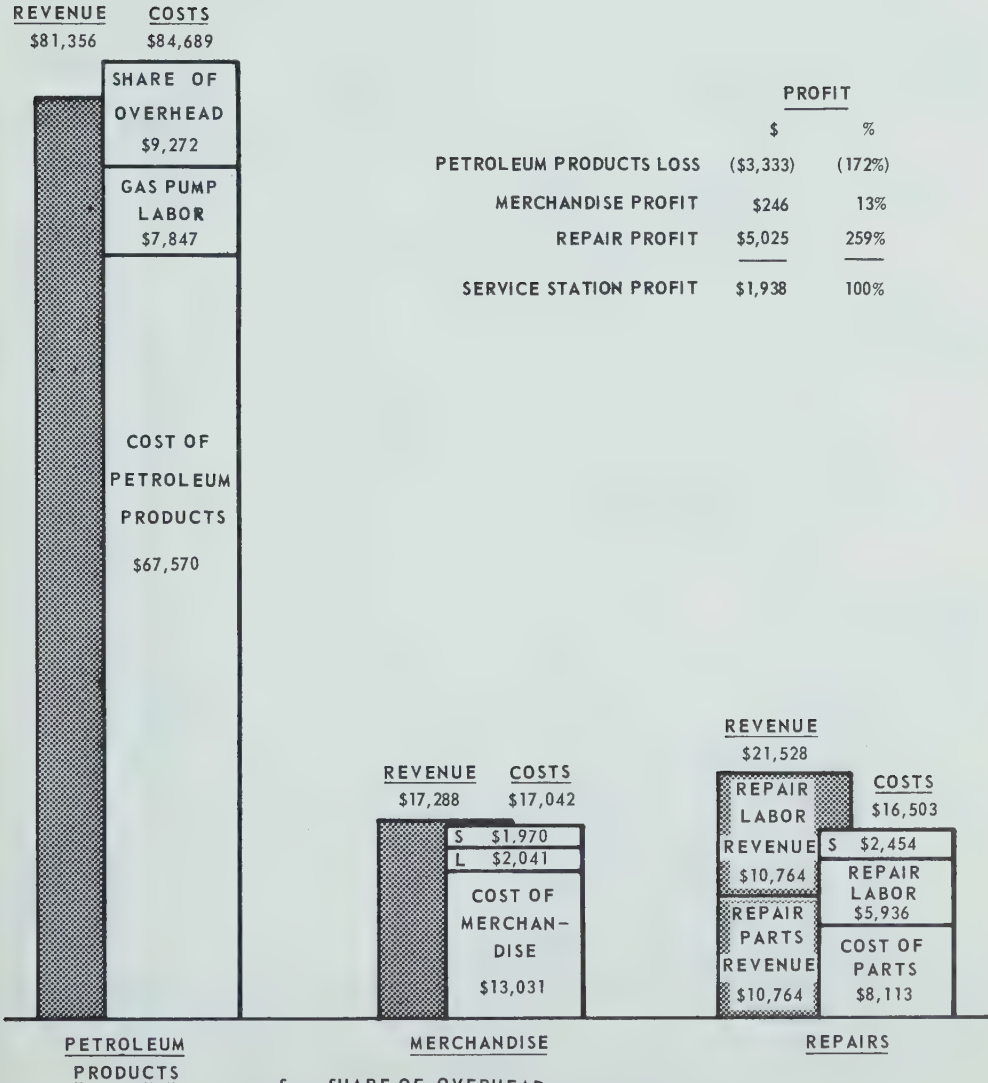


Table 42.

**ACTUAL ECONOMIC MODEL\***  
**(Service Station Questionnaire Data)**  
**Service Station Overhead Allocated by**  
**PROFIT AFTER LABOR**

**Revenue**

Petroleum Products .....		\$ 81,356
Merchandise .....		17,988
Repair Parts .....		10,764
Repair Labor .....		10,764
Total Revenue .....		<u>\$120,172</u>

**Petroleum Products**

Petroleum Products Revenue .....		81,356	
Cost of Petroleum Products .....	\$67,570	<u>67,570</u>	
Gross Profit .....			13,786
Cost of Pump Labor(a) .....	7,847	<u>7,847</u>	
Profit After Labor .....			5,939
Allocation of Service Station Overhead(b) .....	5,203	<u>5,203</u>	
Net Profit From Petroleum Products .....			<u>\$ 736</u>

**Merchandise**

Merchandise Revenue .....		17,288	
Cost of Merchandise .....	13,031	<u>13,031</u>	
Gross Profit .....			4,257
Cost of Sales and Installation Labor .....	2,041	<u>2,041</u>	
Profit After Labor .....			2,216
Allocation of Service Station Overhead .....	1,941	<u>1,941</u>	
Net Profit From Merchandise .....			<u>\$ 275</u>

**Repairs**

Repair Parts Revenue .....		10,764	
Cost of Repair Parts .....	8,113	<u>8,113</u>	
Gross Profit — Repair Parts .....			2,651
Repair Labor Revenue .....		10,764	
Cost of Repair Labor .....	5,936	<u>5,936</u>	
Gross Profit — Repair Labor .....			4,828
Gross Profit Parts and Labor .....			7,479
Allocation of Service Station Overhead .....	6,552	<u>6,552</u>	
Net Profit from Repairs .....			<u>\$ 927</u>
SERVICE STATION PROFIT .....			<u><u>\$1,938</u></u>

(200,000 Gallon Urban Service Station — 70%/30% Sales Ratio)

\* This model is based on the average revenues and costs of 18 urban service stations located in Edmonton and Calgary.

**(a) Total Labor Costs:**

Operator's Salary .....	\$ 5,968
Other .....	12,583
Total .....	<u>\$18,551</u>

**(b) Overhead:**

Rent .....	\$ 3,873
Depreciation .....	1,055
Other Expenses .....	6,041
Administration Labor .....	2,727
	<u>\$13,696</u>

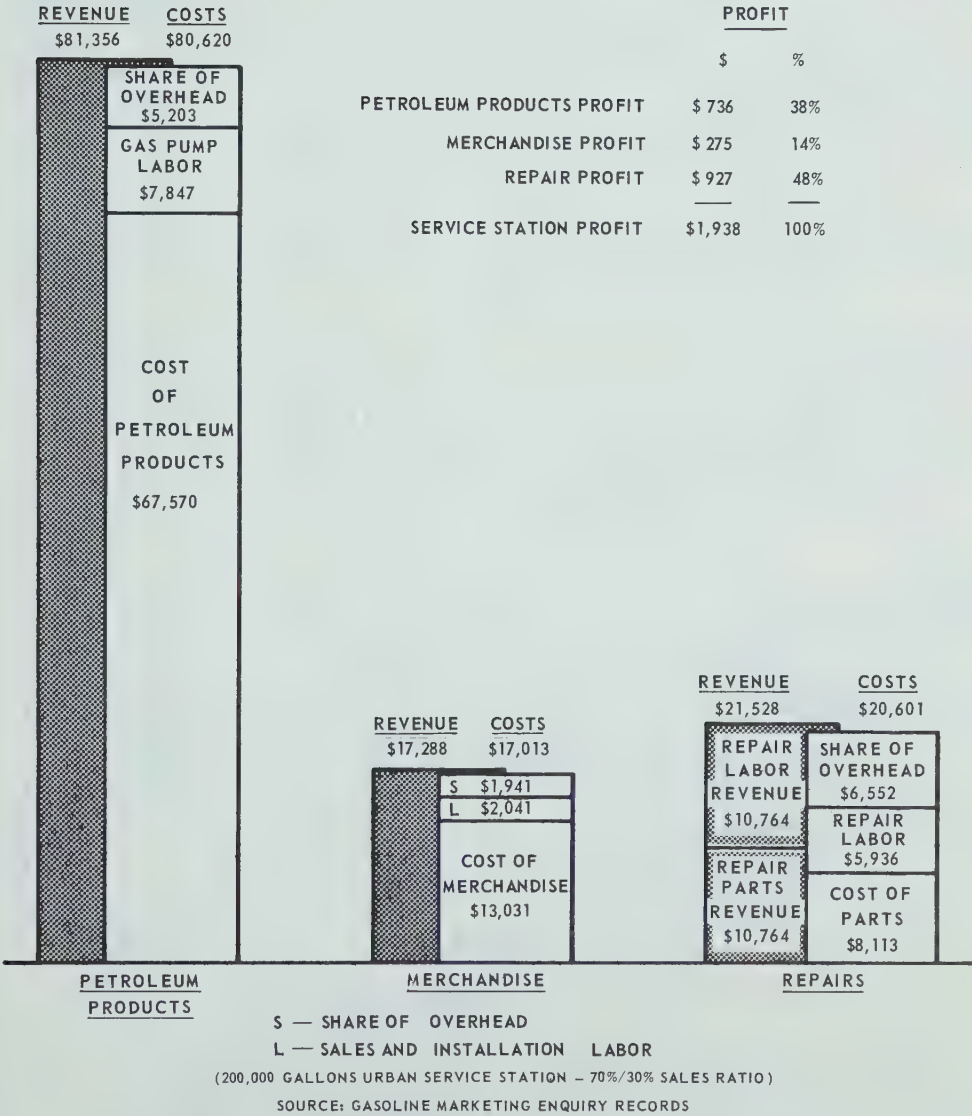
CHART 44

# ACTUAL ECONOMIC MODEL

(SERVICE STATION QUESTIONNAIRE DATA)

## SERVICE STATION OVERHEAD ALLOCATED BY

### PROFIT AFTER LABOR





(3) Theoretical Economic Model

Table 43.

THEORETICAL ECONOMIC MODEL			
(Service Station Questionnaire Data)			
Service Station Overhead Allocated by			
DOLLAR VOLUME OF SALES			
Revenue			
Petroleum Products			
Premium Gasoline .....		\$ 29,900	
Regular Gasoline .....		53,200	
Oil .....		5,400	
Merchandise .....		18,694	
Repair Parts .....		11,765	
Repair Labor .....		11,765	
Total Revenue .....		\$130,724	
Petroleum Products			
Petroleum Products Revenue .....		88,500	
Cost of Gasoline(a): Premium .....	\$24,533		
Regular .....	42,440		
Cost of Oil .....	3,510	70,443	
Gross Profit .....		18,057	
Cost of Pump Labor(b) .....	6,937		
Allocation of Service Station Overhead(c) .....	10,257	17,194	
Net Profit on Petroleum Products .....			\$ 863
Merchandise			
Merchandise Revenue .....		18,694	
Cost of Merchandise .....	14,955	14,955	
Gross Profit .....		3,739	
Cost of Sales and Installation Labor .....	1,804		
Allocation of Service Station Overhead .....	2,166	3,970	
Net Loss on Merchandise .....			(\$ 231)
Repairs			
Repair Parts Revenue .....		11,765	
Cost of Repair Parts .....	9,412	9,412	
Gross Profit — Repair Parts .....		2,353	
Repair Labor Revenue .....		11,765	
Cost of Repair Labor .....	5,248	5,248	
Gross Profit — Repair Labor .....		6,517	
Gross Profit — Parts and Labor .....		8,870	
Allocation of Service Station Overhead .....	2,727	2,727	
Net Profit on Repairs .....			\$6,143
SERVICE STATION PROFIT .....			\$6,775

(a) Margin of 8.1¢ per gallon to dealer.

(b) Wages:	Operator .....	\$ 6,000
	Mechanic .....	5,000
	1.5 Pump Attendants .....	5,400
		\$16,400

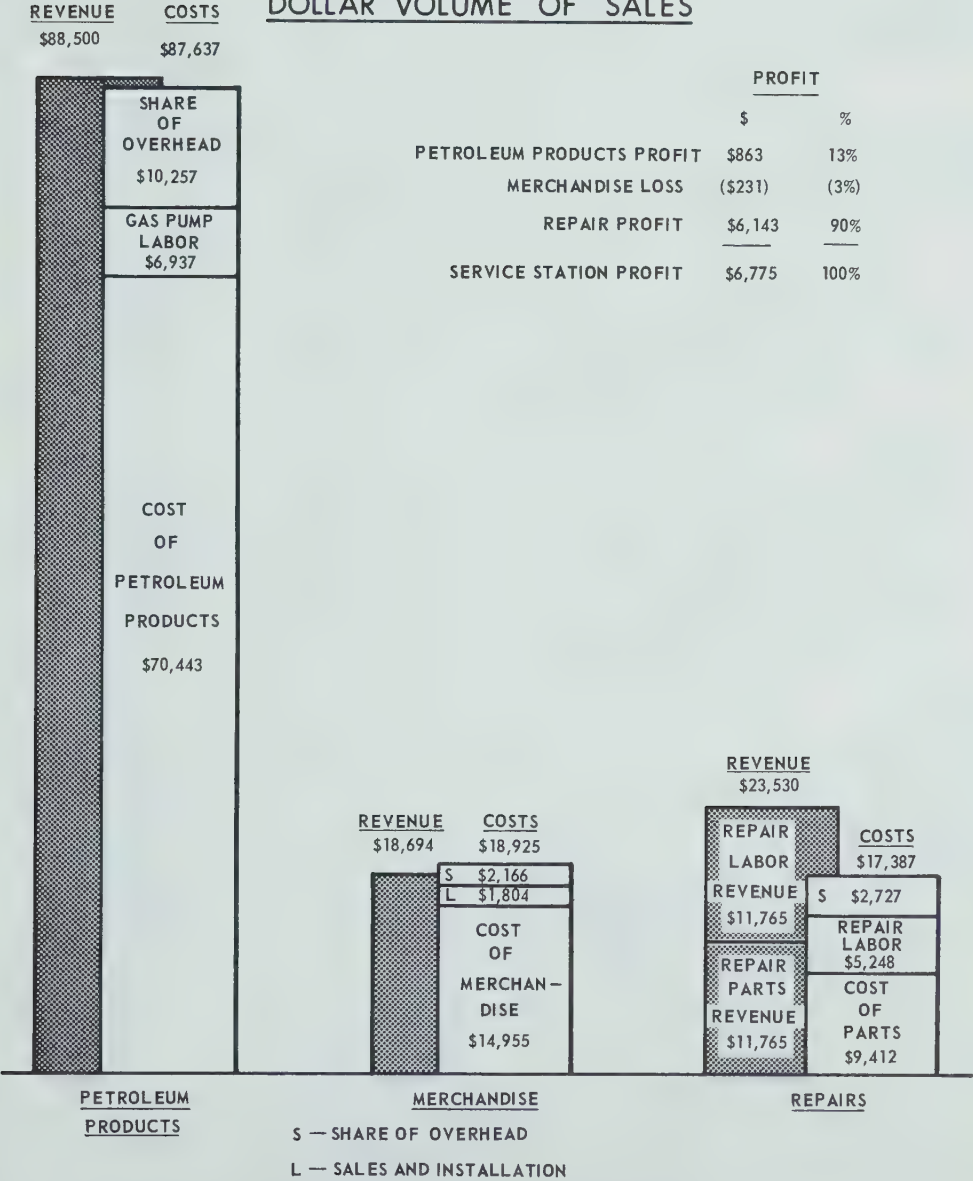
(c) Service Station Overhead:	Taxes .....	\$ 1,300
	7% investment return ....	5,250
	Depreciation .....	2,500
	Insurance .....	6,100
	Utilities .....	
	Licenses .....	
	Miscellaneous .....	
		\$15,150

CHART 45  
THEORETICAL ECONOMIC MODEL

( SERVICE STATION QUESTIONNAIRE DATA)

SERVICE STATION OVERHEAD ALLOCATED BY

DOLLAR VOLUME OF SALES



( 200,000 GALLON URBAN SERVICE STATION — 70%/30% SALES RATIO)

SOURCE: GASOLINE MARKETING INQUIRY RECORDS

**THEORETICAL ECONOMIC MODEL**  
(Service Station Questionnaire Data)  
Service Station Overhead Allocated by  
**PROFIT AFTER LABOR**

(c) Service Station Overhead:	Taxes	\$ 1,300
	7% investment return	5,250
	Depreciation	2,500
	Insurance	} ----- 6,100
	Utilities	
	Licenses	
	Miscellaneous	
		<u>\$15,150</u>

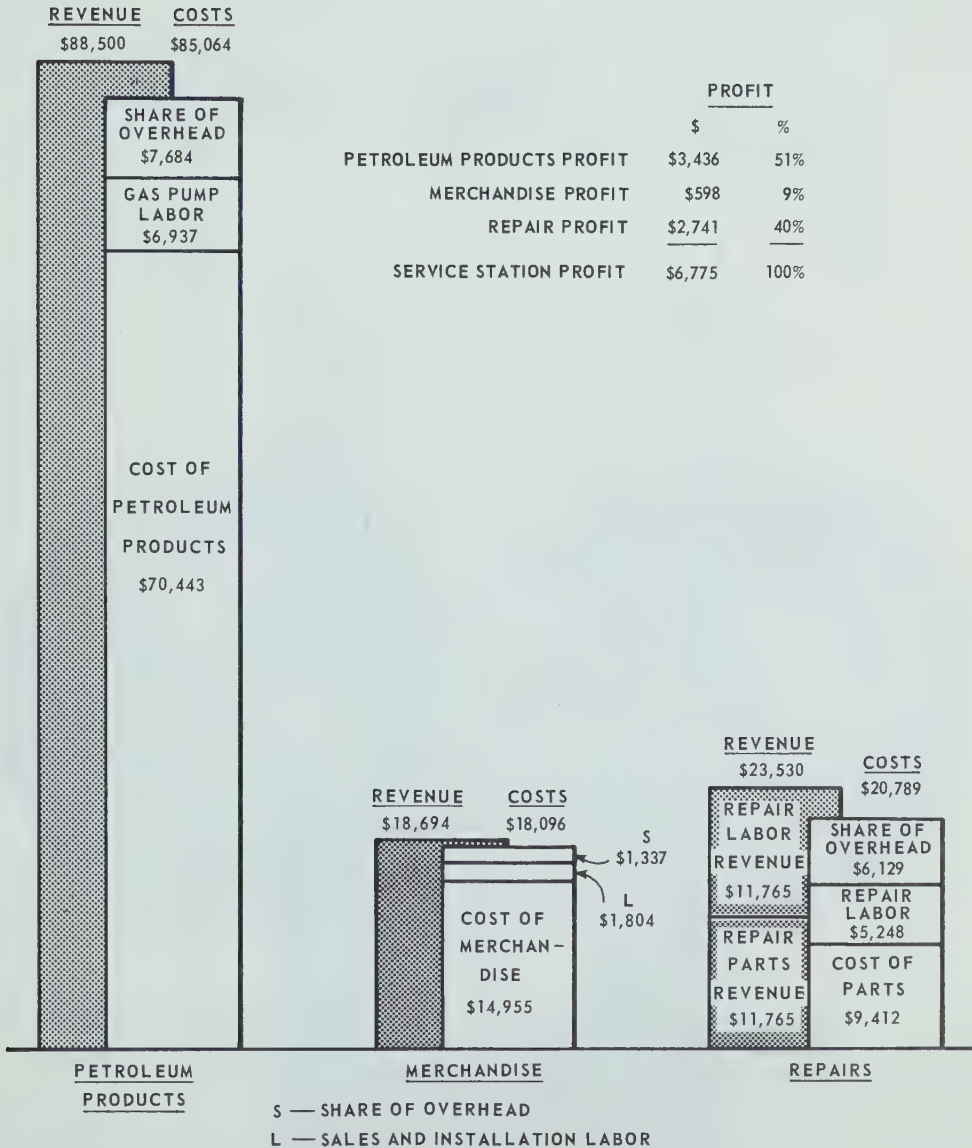
CHART 46

# THEORETICAL ECONOMIC MODEL

(SERVICE STATION QUESTIONNAIRE DATA)

SERVICE STATION OVERHEAD ALLOCATED BY

## PROFIT AFTER LABOR



(200,000 GALLON URBAN SERVICE STATION — 70%/30% SALES RATIO)

SOURCE: GASOLINE MARKETING RECORDS



CHART 47

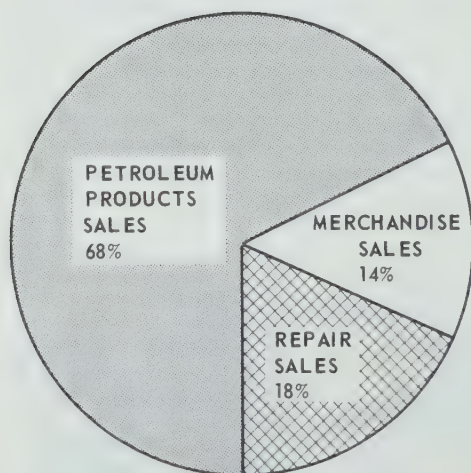
**SALES vs PROFIT**

THEORETICAL ECONOMIC MODEL

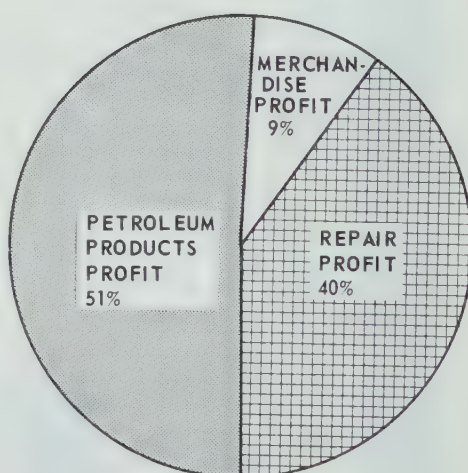
PROFIT AFTER LABOR

<u>TYPE OF SALES</u>	<u>PERCENT OF DOLLAR VOLUME</u>	<u>PERCENT OF PROFIT</u>
PETROLEUM PRODUCTS	68%	51%
MERCHANDISE	14%	9%
REPAIR	18%	40%
	100%	100%

SALES



PROFIT



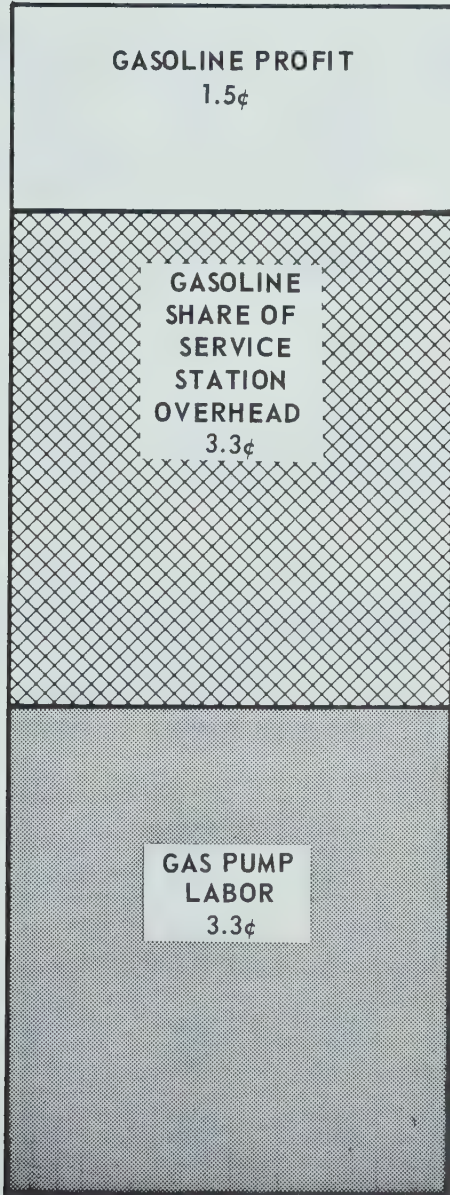
THE REPAIR DIVISION DOES ONLY 18% OF THE DOLLAR VOLUME OF BUSINESS DONE BY THE SERVICE STATION, BUT PRODUCES 40% OF THE TOTAL PROFIT.

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

# OPERATOR'S PROFIT

IN CENTS PER GALLON OF GASOLINE  
ALLOCATION OF OVERHEAD BASED ON  
PROFIT AFTER LABOR  
(Theoretical Economic Model)

8.1¢



0

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

#### (4) Hypothetical Stations

Table 45.

(a) Four Company Comparison of Revenue, Expense and Income  
Hypothetical 200,000 Gallon Station with a 70%/30% Sales Ratio

Estimated Breakdown of Revenue						
	Imperial	B.A.	Royalite	Shell	Average	% of Sales
<b>Gasoline</b>						
Gasoline Sales .....	\$85,000	\$88,000	\$86,800	\$87,300	\$86,775	70.1 %
Cost of Gas .....	69,000	68,200	68,200	69,100	68,625	55.4 %
Gross Profit on Gas .....	\$16,000	\$19,800	\$18,600	\$18,200	\$18,150	14.7 %
<b>Merchandise</b>						
Motor Oils .....	\$ 5,000	\$ 6,280	\$ 4,960	\$ 5,400	\$ 5,410	4.4 %
Lubricants .....	2,000	2,510	2,480	2,500	2,373	1.9 %
T.B.A. ....	20,000	20,500	21,080	21,200	20,695	16.7 %
Total Sales .....	\$27,000	\$29,290	\$28,520	\$29,100	\$28,478	23.0 %
Cost of Merchandise .....	19,400	17,160	22,320	19,200	19,520	15.8 %
Gross Profit on Merchandise ..	\$ 7,600	\$12,130	\$ 6,200	\$ 9,900	\$ 8,958	7.2 %
<b>Repair</b>						
Labor Sales .....	\$ 9,000	\$ 8,400	\$ 8,680	\$ 8,100a	\$ 8,545	6.9 %
Gross Profit for three Divisions ..	\$32,600	\$40,330	\$33,480	\$36,200	\$35,653	28.8 %

(a) Reported sales of \$10,600 allocated between labor and lubricants.

Hypothetical 200,000 Gallon Station with a 70%/30% Sales Ratio

Estimated Expenses Breakdown						
	Imperial	B.A.	Royalite	Shell	Average	% of Sales
<b>Labor Cost</b>						
<b>Salaries:</b>						
Operator .....	\$ 8,000	\$ 8,000	\$ 6,500	\$ 7,200	\$ 7,425	6.0 %
Mechanic .....	6,000	6,000	5,400	6,000	5,850	4.7 %
Pump/Lube ..	8,900	9,800	10,140	12,000	10,210	8.2 %
Total Labor Cost .....	\$22,900	\$23,800	\$22,040	\$25,200	\$23,485	19.0 %
<b>Overhead Costs</b>						
Utilities .....	\$ 1,100	\$ 1,000	\$ 1,500	\$ 1,500	\$ 1,275	1.0 %
Truck .....	900	600	1,000	900	850	0.7 %
Maintenance .....	800	400	500	1,000	675	0.6 %
Accounting & Misc. ....	3,700	2,400	2,645	2,700	2,511	2.0 %
Occupancy Cost ..	3,400	4,800	3,700	1,050	3,238	2.6 %
Total Overhead Costs ..	\$ 9,900	\$ 9,200	\$ 9,345	\$ 7,150	\$ 8,899	7.2 %
Total Labor & Overhead .....	\$32,800	\$33,000	\$31,385	\$32,350	\$32,384	26.2 %

**Hypothetical 200,000 Gallon Station with a 70%/30% Sales Ratio  
Estimated Income Statement**

	Imperial	B.A.	Royalite	Shell	Average	% of Sales
<b>Revenue:</b>						
Gasoline .....	\$16,000	\$19,800	\$18,600	\$18,200	\$18,150	14.7 %
Merchandise .....	7,600	12,130	6,200	9,900	8,958	7.2 %
Repair Labor .....	9,000	8,400	8,680	8,100	8,545	6.9 %
Gross Profit .....	<u>\$32,600</u>	<u>\$40,330</u>	<u>\$33,480</u>	<u>\$36,200</u>	<u>\$35,653</u>	28.8 %
<b>Expenses:</b>						
Labor Costs .....	\$22,900	\$23,800	\$22,040	\$25,200	\$23,485	19.0 %
Overhead .....	9,900	9,200	9,345	7,150	8,899	7.2 %
Total .....	<u>\$32,800</u>	<u>\$33,000</u>	<u>\$31,385</u>	<u>\$32,350</u>	<u>\$32,384</u>	26.2 %
Net Profit						
(Loss) .....	<u>(\$200)</u>	<u>\$ 7,330</u>	<u>\$ 2,095</u>	<u>\$ 3,850</u>	<u>\$ 3,269</u>	2.6 %

Source: Questionnaire 19, Question 115(c), (d).

In Table 45, and in Tables 46 to 49 the following mark-ups were used in the hypothetical stations:—

**GASOLINE MARK-UPS AT HYPOTHETICAL STATIONS**

Imperial	8.0c
B.A.	9.9c
Royalite	9.3c
Shell	9.1c

Source: Questionnaire 19, Question 115(d).

B.A. which assumed the highest mark-up on gasoline and the highest sales of motor oils and lubricants, as a result shows the highest profit for petroleum products.

In Table 49X, being the Texaco Hypothetical prepared by the Committee, the gasoline mark-up at 6c per gallon is lower, but the volume is 40,000 gallons higher, and the lubes sold are three times greater than assumed by any other company. These factors produce a higher profit on petroleum products than shown in the other hypothetical stations.



Table 46.

(b) ESSO HYPOTHETICAL  
 (200,000 Gallon Urban Service Station)  
 Service Station Overhead Allocated by  
 DOLLAR VOLUME OF SALES

**Revenue**

Petroleum Products		
Gasoline .....		\$ 85,000
Oil .....		5,000
Lubes .....		2,000
Merchandise .....		11,000
Repair Parts .....		9,000
Repair Labor .....		9,000
Total Revenue .....		<u>\$121,000</u>

**Petroleum Products**

Petroleum Products Revenue .....		92,000	
Cost of Gasoline .....	\$69,000		
Cost of Oil(a) .....	2,925		
Cost of Lubes .....	100	72,025	
Gross Profit .....		<u>19,975</u>	
Cost of Pump Labor(b) .....	9,687		
Allocation of Service Station Overhead(c) .....	10,087	19,774	
Net Profit on Petroleum Products .....			\$ 201

**Merchandise**

Merchandise Revenue .....		11,000	
Cost of Merchandise .....	9,006	9,006	
Gross Profit .....		<u>1,994</u>	
Cost of Sales and Installation Labor .....	2,519		
Allocation of Service Station Overhead .....	1,206	3,725	
Net Loss on Merchandise .....			(\$1,731)

**Repairs**

Repair Parts Revenue(d) .....		9,000	
Cost of Repair Parts .....	7,369	7,369	
Gross Profit—Repair Parts .....		<u>1,631</u>	
Repair Labor Revenue .....		9,000	
Cost of Repair Labor .....	7,328	7,328	
Gross Profit—Repair Labor .....		<u>1,672</u>	
Gross Profit—Parts and Labor .....		3,303	
Allocation of Service Station Overhead .....	1,973	1,973	
Net Profit on Repairs .....			\$1,330
SERVICE STATION LOSS .....			<u>(\$ 200)</u>

**ESSO HYPOTHETICAL**  
**(200,000 Gallon Urban Service Station)**  
**Service Station Overhead Allocated by**  
**PROFIT AFTER LABOR**

**Revenue**

Petroleum Products		
Gasoline .....	\$ 85,000	
Oil .....	5,000	
Lubes .....	2,000	
Merchandise .....	11,000	
Repair Parts .....	9,000	
Repair Labor .....	9,000	
Total Revenue .....	<u>\$121,000</u>	

**Petroleum Products**

Petroleum Products Revenue .....		92,000	
Cost of Gasoline .....	\$69,000		
Cost of Oil(a) .....	2,925		
Cost of Lubes .....	100	72,025	
Gross Profit .....		<u>19,975</u>	
Cost of Pump Labor(b) .....	9,687	9,687	
Profit After Labor .....		10,288	
Allocation of Service Station Overhead(c) .....	10,042	10,042	
Net Profit on Petroleum Products .....			\$ 246

**Merchandise**

Merchandise Revenue .....		11,000	
Cost of Merchandise .....	9,006	9,006	
Gross Profit .....		1,994	
Cost of Sales and Installation Labor .....	2,519	2,519	
Profit After Labor .....		(525)	
Allocation of Service Station Overhead .....		0	
Net Loss on Merchandise .....			(\$ 525)

**Repairs**

Repair Parts Revenue(d) .....		9,000	
Cost of Repair Parts .....	7,369	7,369	
Gross Profit—Repair Parts .....		1,631	
Repair Labor Revenue .....		9,000	
Cost of Repair Labor .....	7,328	7,328	
Gross Profit—Repair Labor .....		1,672	
Gross Profit—Parts and Labor .....		3,303	
Allocation of Service Station Overhead .....	3,224	3,224	
Net Loss on Repairs .....			(\$ 79)

**SERVICE STATION LOSS** ..... (\$ 200)

(a) No breakdown of costs given. B.A.'s percentage of costs used. Cost of Merchandise reduced by this amount.

(b) Labor costs include: Operator ..... \$ 8,000  
Mechanic ..... 6,000  
Lube Man ..... 4,000  
Pump Attendant .... 3,600  
Part Time Help ..... 1,300  
\$22,900

(c) Overhead includes: Heat, Light, and Power ..... \$ 1,100  
Truck ..... 900  
Maintenance ..... 800  
Accounting and Misc. .... 800  
Occupancy Cost ..... 3,400  
Advertising ..... 600  
Cleaning (Laundry) ..... 500  
Misc. Shop Expense ..... 400  
Hospitalization etc. .... 1,400

Admin. Labor 14.7% × 22,900 ..... \$ 9,900  
3,366

**TOTAL OVERHEAD** ..... \$13,266

(d) Repair parts revenue taken from merchandise on the basis that repair labor revenue is equal to repair parts revenue.

Source: Questionnaire 19, Question 115.

Table 47.

(c) B.A. HYPOTHETICAL  
(200,000 Gallon Service Station)  
Service Station Overhead Allocated by  
DOLLAR VOLUME OF SALES

**Revenue**

Petroleum Products	
Gasoline .....	\$ 88,000
Oil .....	6,280
Lubes .....	2,510
Merchandise .....	12,100
Repair Parts .....	8,400
Repair Labor .....	8,400
Total Revenue .....	<u>\$125,690</u>

**Petroleum Products**

Petroleum Products Revenue .....		96,790
Cost of Gasoline(a) .....	68,200	
Cost of Oil .....	3,674	
Cost of Lubes .....	126	72,000
Gross Profit .....		<u>24,790</u>
Cost of Pump Labor(b) .....	10,067	
Allocation of Service Station Overhead(c) .....	9,779	19,846
Net Profit on Petroleum Products .....		<u>\$4,944</u>

**Merchandise**

Merchandise Revenue .....		12,100
Cost of Merchandise(d) .....	7,889	7,889
Gross Profit .....		<u>4,211</u>
Cost of Sales and Installation Labor .....	2,618	
Allocation of Service Station Overhead .....	1,223	3,841
Net Profit on Merchandise .....		<u>\$ 370</u>

**Repairs**

Repair Parts Revenue(e) .....		8,400
Cost of Repair Parts .....	5,477	5,477
Gross Profit—Repair Parts .....		<u>2,923</u>
Repair Labor Revenue .....		8,400
Cost of Repair Labor .....	7,616	7,616
Gross Profit—Repair Labor .....		<u>784</u>
Gross Profit—Parts and Labor .....		3,707
Allocation of Service Station Overhead .....	1,697	1,697
Net Profit on Repairs .....		<u>\$2,010</u>
SERVICE STATION PROFIT .....		<u><u>\$7,324</u></u>

**B.A. HYPOTHETICAL**  
**(200,000 Gallon Service Station)**  
**Service Station Overhead Allocated by**  
**PROFIT AFTER LABOR**

**Revenue**

Petroleum Products		
Gasoline .....	\$ 88,000	
Oil .....	6,280	
Lubes .....	2,510	
Merchandise .....	12,100	
Repair Parts .....	8,400	
Repair Labor .....	8,400	
Total Revenue .....	<u>\$125,690</u>	

**Petroleum Products**

Petroleum Products Revenue .....		96,790	
Cost of Gasoline(a) .....	\$68,200		
Cost of Oil .....	3,674		
Cost of Lubes .....	126	72,000	
Gross Profit .....		<u>24,790</u>	
Cost of Pump Labor(b) .....	10,067	10,067	
Profit After Labor .....		<u>14,723</u>	
Allocation of Service Station Overhead(c) .....	9,338	9,338	
Net Profit on Petroleum Products .....			<u>\$5,385</u>

**Merchandise**

Merchandise Revenue .....		12,100	
Cost of Merchandise(d) .....	7,889	7,889	
Gross Profit .....		<u>4,211</u>	
Cost of Sales and Installation Labor .....	2,618	2,618	
Profit After Labor .....		<u>1,593</u>	
Allocation of Service Station Overhead .....	1,010	1,010	
Net Profit on Merchandise .....			<u>\$ 583</u>

**Repairs**

Repair Parts Revenue(e) .....		8,400	
Cost of Repair Parts .....	5,477	5,477	
Gross Profit—Repair Parts .....		<u>2,923</u>	
Repair Labor Revenue .....		8,400	
Cost of Labor .....	7,616	7,616	
Gross Profit—Repair Labor .....		<u>784</u>	
Gross Profit—Parts and Labor .....		<u>3,707</u>	
Allocation of Service Station Overhead .....	2,351	2,351	
Net Profit on Repairs .....			<u>\$1,356</u>
SERVICE STATION PROFIT .....			<u><u>\$7,324</u></u>

(a) Cost of gasoline based on a mark-up of 9.9c.  
Cost of oil 58.5% of oil revenue.  
Cost of Lubes 5% of Lube Revenue.

(b) Cost of Labor: Operator ..... \$ 8,000  
Mechanic ..... 6,000  
Attendant ..... 4,800  
Part Time Help ..... 5,000  
\$23,800

(c) Service Station Overhead: Heat, Light, and Power ..... \$ 1,000  
Truck ..... 600  
Maintenance ..... 400  
Accounting & Misc. .... 2,400  
Occupancy Cost (depreciation & taxes) ..... 4,800  
9,200  
Admin. Labor 14.7% × 23,800 ..... 3,499  
\$12,699

(d) Cost of merchandise 65.2% of merchandise revenue.

(e) Repair parts revenue taken from Merchandise Revenue on the basis that Repair Parts Revenue is equal to Repair Labor Revenue.

Source: Questionnaire 19, Question 115.



Table 48.

(d) ROYALITE HYPOTHETICAL  
(200,000 Gallon Urban Service Station)  
Service Station Overhead Allocated by  
DOLLAR VOLUME OF SALES

**Revenue**

<b>Petroleum Products</b>		
Gasoline .....		\$ 86,800
Oil .....		4,960
Lubes .....		2,480
Merchandise .....		12,400
Repair Parts .....		8,680
Repair Labor .....		8,680
Total Revenue .....		<u>\$124,000</u>

**Petroleum Products**

Petroleum Products Revenue .....		94,240	
Cost of Gasoline .....	\$68,200		
Cost of Oil(a) .....	2,902		
Cost of Lubes(a) .....	124	71,226	
Gross Profit .....		<u>23,014</u>	
Cost of Pump Labor(b) .....	9,323		
Allocation of Service Station Overhead(c) .....	9,565	18,888	
Net Profit on Petroleum Products .....			<u>\$4,126</u>

**Merchandise**

Merchandise Revenue .....		12,400	
Cost of Merchandise .....	11,349	11,349	
Gross Profit .....		<u>1,051</u>	
Cost of Sales and Installation Labor .....	2,424		
Allocation of Service Station Overhead .....	1,258	2,682	
Net Loss on Merchandise .....			<u>(\$2,631)</u>

**Repairs**

Repair Parts Revenue(d) .....		8,680	
Cost of Repair Parts .....	7,945	7,945	
Gross Profit—Repair Parts .....		<u>735</u>	
Repair Labor Revenue .....		8,680	
Cost of Repair Labor .....	7,053	7,053	
Gross Profit—Repair Labor .....		<u>1,627</u>	
Gross Profit—Parts and Labor .....		2,362	
Allocation of Service Station Overhead .....	1,762	1,762	
Net Profit on Repairs .....			<u>\$ 600</u>
SERVICE STATION PROFIT .....			<u><u>\$2,095</u></u>

**ROYALITE HYPOTHETICAL**  
**(200,000 Gallon Urban Service Station)**  
**Service Station Overhead Allocated by**  
**PROFIT AFTER LABOR**

**Revenue**

Petroleum Products .....		
Gasoline .....		\$ 86,800
Oil .....		4,960
Lubes .....		2,480
Merchandise .....		12,400
Repair Parts .....		8,680
Repair Labor .....		8,680
Total Revenue .....		<u>\$124,000</u>

**Petroleum Products**

Petroleum Products Revenue .....		94,240	
Cost of Gasoline .....	\$68,200		
Cost of Oil(a) .....	2,902		
Cost of Lubes(a) .....	124	71,226	
Gross Profit .....		23,014	
Cost of Pump Labor(b) .....	9,323	9,323	
Profit After Labor .....		13,691	
Allocation of Service Station Overhead(c) .....	10,734	10,734	
Net Profit on Petroleum Products .....			<u>\$2,957</u>

**Merchandise**

Merchandise Revenue .....		12,400	
Cost of Merchandise .....	11,349	11,349	
Gross Profit .....		1,051	
Cost of Sales and Installation Labor .....	2,424	2,424	
Loss After Labor .....		(1,373)	
Allocation of Service Station Overhead .....		0	
Net Loss on Merchandise .....			<u>(\$1,373)</u>

**Repairs**

Repair Parts Revenue(d) .....		8,680	
Cost of Repair Parts .....	7,945	7,945	
Gross Profit—Repair Parts .....		735	
Repair Labor Revenue .....		8,680	
Cost of Labor .....		7,053	
Gross Profit—Repair Labor .....		1,627	
Gross Profit—Parts and Labor .....		2,362	
Allocation of Service Station Overhead .....	1,853	1,853	
Net Profit on Repairs .....			<u>\$ 510</u>
SERVICE STATION PROFIT .....			<u>\$2,095</u>

(a) A breakdown of these costs not given. B.A.'s percentage used to arrive at costs which were then deducted from cost of Merchandise Sold.

(b) Labor costs include: Operator ..... \$ 6,500  
Mechanic ..... 5,400  
Lube Man ..... 4,320  
Pump Attendant .... 4,320  
Part Time Help ..... 1,500  
                                    \$22,040

(c) Overhead costs include: Heat, Light & Power ..... \$ 1,500  
Truck ..... 1,000  
Maintenance ..... 500  
Accounting & Misc. .... 2,645  
Occupancy cost ..... 3,700  
                                    \$ 9,345  
Admin. Labor 14.7% x 22,040 ..... 3,240  
TOTAL OVERHEAD ..... \$12,585

(d) Repair parts revenue taken from merchandise revenue on the basis that repair parts revenue is equal to repair labor revenue.

Source: Questionnaire 19, Question 115.

Table 49.

(e) SHELL HYPOTHETICAL  
(200,000 Gallon Urban Service Station)  
Service Station Overhead Allocated by  
DOLLAR VOLUME OF SALES

**Revenue**

Petroleum Products		
Gasoline .....		\$ 87,300
Oil .....		5,400
Lubes(a) .....		2,500
Merchandise .....		13,100
Repair Parts .....		8,100
Repair Labor .....		8,100
Total Revenue .....		<u>\$124,500</u>

**Petroleum Products**

Petroleum Products Revenue .....		95,200	
Cost of Gasoline .....	\$69,100		
Cost of Oil(b) .....	3,159		
Cost of Lubes(b) .....	125	72,384	
Gross Profit .....		<u>22,816</u>	
Cost of Pump Labor(c) .....	10,660		
Allocation of Service Station Overhead(d) .....	8,300	18,960	
Net Profit on Petroleum Products .....			<u>\$3,856</u>

**Merchandise**

Merchandise Revenue .....		13,100	
Cost of Merchandise .....	9,835	9,835	
Gross Profit .....		<u>3,265</u>	
Cost of Sales and Installation Labor .....	2,772		
Allocation of Service Station Overhead .....	1,142	3,914	
Net Loss on Merchandise .....			<u>(\$649)</u>

**Repairs**

Repair Parts Revenue(e) .....		8,100	
Cost of Parts .....	6,081	6,081	
Gross Profit — Repair Parts .....		<u>2,019</u>	
Repair Labor Revenue .....		8,100	
Cost of Repair Labor .....	8,064	8,064	
Gross Profit — Repair Labor .....		<u>36</u>	
Gross Profit — Parts and Labor .....		2,055	
Allocation of Service Station Overhead .....	1,412	1,412	
Net Profit on Repairs .....			<u>\$ 643</u>
SERVICE STATION PROFIT .....			<u><u>\$3,850</u></u>

**SHELL HYPOTHETICAL**  
**(200,000 Gallon Urban Service Station)**  
**Service Station Overhead Allocated by**  
**PROFIT AFTER LABOR**

**Revenue**

Petroleum Products		
Gasoline .....	\$ 87,300	
Oil .....	5,400	
Lubes(a) .....	2,500	
Merchandise .....	13,100	
Repair Parts .....	8,100	
Repair Labor .....	8,100	
Total Revenue .....		\$124,500

**Petroleum Products**

Petroleum Products Revenue .....		95,200
Cost of Gasoline .....	\$69,100	
Cost of Oil(b) .....	3,159	
Cost of Lubes(b) .....	125	72,384
Gross Profit .....		22,816
Cost of Pump Labor(c) .....	10,660	10,660
Profit After Labor .....		12,156
Allocation of Service Station Overhead(d) .....	8,973	8,973
Net Profit on Petroleum Products .....		\$3,183

**Merchandise**

Merchandise Revenue .....		13,100
Cost of Merchandise .....	9,835	9,835
Gross Profit .....		3,265
Cost of Sales and Installation labor .....	2,772	2,772
Profit After Labor .....		493
Allocation of Service Station Overhead .....	364	364
Net Profit on Merchandise .....		\$ 129

**Repairs**

Repair Parts Revenue(e) .....		8,100
Cost of Repair Parts .....	6,081	6,081
Gross Profit — Repair Parts .....		2,019
Repair Labor Revenue .....		8,100
Cost of Labor .....		8,064
Gross Profit — Repair Labor .....		36
Gross Profit — Parts and Labor .....		2,054
Allocation of Service Station Overhead .....	1,516	1,516
Net Profit on Repairs .....		\$ 538

**SERVICE STATION PROFIT**

\$3,850

(a) No breakdown of lubes given. This is an estimate based on other companies. Since lubes were originally included in labor and service the figure was reduced by the amount allocated to lubes.

(b) No cost breakdown given. B.A.'s percentages were applied to give the costs and this was deducted from the cost of merchandise sold.

(c) Labor costs include: Operator ..... \$ 7,200  
Mechanic ..... 6,000  
Shift Manager ..... 4,500  
Pump Attendant ..... 4,200  
Pump Attendant ..... 3,300

\$25,200

(d) Overhead includes: Heat, Light and Power ..... \$ 1,500  
Truck ..... 900  
Maintenance ..... 1,000  
Accounting ..... 0  
Advertising ..... 900  
Tool replacement ..... 200  
Uniform cleaning ..... 400  
Shop & office supplies ..... 700  
Snow removal ..... 200  
Insurance ..... 300  
Occupancy cost ..... 1,050

\$ 7,150

Admin. labor 14.7% x 25,200 ..... 3,704

TOTAL OVERHEAD ..... \$10,854

(e) Repair parts revenue taken from merchandise on the basis that repair labor revenue is equal to repair parts revenue.

Source: Questionnaire 19, Question 115.



Table 49X

(f) TEXACO HYPOTHETICAL  
(240,000 Gallon Service Station)  
Service Station Overhead Allocated by  
DOLLAR VOLUME OF SALES

**Revenue**

Petroleum Products		
Gasoline(a) .....		\$100,800
Oil(b) .....		6,240
Lubes(c) .....		7,480
Merchandise(d) .....		26,496
Repair Parts(e) .....		7,392
Repair Labor(e) .....		7,392
Total Revenue .....		<u>\$155,800</u>

**Petroleum Products**

Petroleum Products Revenue .....		\$114,520	
Cost of Gasoline .....	\$86,400		
Cost of Oil(f) .....	3,650		
Cost of Lubes(f) .....	374	90,424	
Gross Profit .....		24,096	
Cost of Pump Labor(g) .....	9,323		
Allocation of Service Station Overhead .....	9,238	18,561	
Net Profit on Petroleum Products .....			\$5,535

**Merchandise**

Merchandise Revenue .....		\$26,496	
Cost of Merchandise(h) .....	21,197	21,197	
Gross Profit .....		5,299	
Cost of Merchandise Labor .....	2,424		
Allocation of Service Station Overhead .....	2,137	4,561	
Net Profit on Merchandise .....			\$ 738

**Repairs**

Repair Parts Revenue .....		\$7,392	
Cost of Repair Parts(h) .....	5,914	5,914	
Gross Profit — Repair Parts .....		1,478	
Repair Labor Revenue .....		7,392	
Cost of Repair Labor .....	7,053	7,053	
Gross Profit — Repair Labor .....		339	
Gross Profit — Parts and Labor .....		1,817	
Allocation of Service Station Overhead .....	1,193	1,193	
Net Profit on Repairs .....			\$ 624
SERVICE STATION PROFIT .....			<u>\$6,897</u>

**TEXACO HYPOTHETICAL**  
**(240,000 Gallon Service Station)**  
**Service Station Overhead Allocated by**  
**PROFIT AFTER LABOUR**

**Revenue**

Petroleum Products		
Gasoline .....		\$100,800
Oil .....		6,240
Lubes .....		7,480
Merchandise .....		26,496
Repair Parts .....		7,392
Repair Labor .....		7,392
Total Revenue .....		<u>\$155,800</u>

**Petroleum Products**

Petroleum Products Revenue .....		\$114,520	
Cost of Gasoline .....	\$86,400		
Cost of Oil .....	3,650		
Cost of Lubes .....	374	90,424	
Gross Profit .....		24,096	
Cost of Pump Labor .....	9,323	9,323	
Profit After Labor .....		14,773	
Allocation of Overhead .....	9,539	9,539	
Net Profit on Petroleum Products .....			\$5,234

**Merchandise**

Merchandise Revenue .....		26,496	
Cost of Merchandise .....	21,197	21,197	
Gross Profit .....		5,299	
Cost of Merchandise Labor .....	2,424	2,424	
Profit After Labor .....		2,875	
Allocation of Overhead .....	1,856	1,856	
Net Profit on Merchandise .....			\$1,019

**Repairs**

Repair Parts Revenue .....		\$7,392	
Cost of Repair Parts .....	\$5,914	5,914	
Gross Profit .....		1,478	
Repair Labor Revenue .....		7,392	
Cost of Repair Labor .....	7,053	7,053	
Profit After Labor .....		339	
Gross Profit + Profit After Labor .....		1,817	
Allocation of Overhead .....	1,173	1,173	
Net Profit on Repairs .....			\$ 644
SERVICE STATION PROFIT .....			<u><u>\$6,897</u></u>

- (a) Gasoline at 42¢ per gallon, 6¢ mark-up.  
(b) See item on Texaco Part 6, Chapter 21, Item 1.  
(c) See item on Texaco Part 6, Chapter 21, Item 1. Lubes and Gear Oils added together.  
(d) See item on Texaco Part 6, Chapter 21, Item 1. T.B.A. items added together.  
(e) See item on Texaco Part 6, Chapter 21, Item 1. Repair parts taken as 50% of Labor and Service.  
(f) B.A.'s cost breakdown of these items was used.  
(g) Royalite's labor and overhead breakdown used as their total of these items most nearly matched Texaco's total overhead and labor costs. Texaco's estimated labor cost \$22,040, overhead cost \$12,568.  
(h) Taken at 20% mark-up.

Note: The other companies lube sales at their hypothetical stations range between \$2,000 and \$2,500. Texaco's projected lube sales of almost \$7,500 accounts for most of their profit.

Note: The reply of Texaco Canada Limited to questionnaire 19 read in part:  
"Texaco Canada does not wish to provide specific answers to the five individual questions contained in this particular questionnaire."

The data for the Texaco hypothetical station was obtained from a circular published by Texaco for its dealers which was quoted in part in Chapter 21, Item (1).

## (5) Oil Company Owned, Employee Operated Stations

Table 50.  
REVENUE  
Oil Company Stations — Employee Operated  
Alberta, 1965

	I	II	III	IV	V	VI
Gallage .....	91,130	99,657	107,200	130,571	182,169	187,119
Sales Ratio .....	65%/35%	74%/26%	63%/37%	62%/38%	78%/22%	83%/17%

### Breakdown of Revenue:

#### Gasoline

Sales .....	\$33,215	\$40,065	\$42,938	\$52,900	\$72,502	\$75,703
Costs .....	\$29,570	33,084	35,963	43,835	60,799	62,792
Gross Profit .....	<u>\$ 3,645</u>	<u>\$ 6,981</u>	<u>\$ 6,975</u>	<u>\$ 9,065</u>	<u>\$11,793</u>	<u>\$12,911</u>

#### Merchandise

Oil .....	1,574	2,327	3,050	3,799	3,420	4,101
Lubes .....	—	85	1,345	—	133	9
T.B.A. ....	5,192	7,992	16,371	20,080	11,291	7,613
Other .....	10,568	—	—	—	—	873
Total .....	17,334	10,404	20,766	23,879	14,844	12,596
Cost of Merch. ....	15,355	8,053	12,941	20,119	11,381	6,819
Gross Profit .....	<u>1,979</u>	<u>2,351</u>	<u>7,825</u>	<u>3,760</u>	<u>3,463</u>	<u>5,777</u>

#### Repair

Labor Sales .....	2,061	3,413	4,488	8,795	5,107	2,705
Total						
Gross Profit .....	<u>\$ 7,685</u>	<u>\$12,745</u>	<u>\$19,288</u>	<u>\$21,620</u>	<u>\$20,363</u>	<u>\$21,393</u>

EXPENSES  
Oil Company Stations — Employee Operated  
Alberta, 1965

	I	II	III	IV	V	VI
Gallage .....	91,130	99,657	107,200	130,571	182,169	187,119
Sales Ratio .....	65%/35%	74%/26%	63%/37%	62%/38%	78%/22%	83%/17%

### Breakdown of Expenses:

#### Labor Costs

Operator .....	\$ 3,744	\$ 4,980	\$ 4,959	\$ 4,223	\$ 5,085	\$ 4,971
Mechanic(s) .....	8,097	4,105	5,079	4,899	4,840	—
Pump/Lube .....	—	5,201	4,198	12,765	8,434	12,717
Total Labor .....	<u>11,841</u>	<u>14,286</u>	<u>14,236</u>	<u>21,887</u>	<u>18,359</u>	<u>17,688</u>

#### Overhead Costs

Utilities .....	820	1,300	792	3,405	937	853
Truck .....	179	464	512	419	261	—
Maintenance .....	329	248	444	3,174	388	822
Acctg & Misc. ....	508	275	172	275	275	4,064
Occupancy .....	1,245	6,582	3,715	6,600	5,832	5,702
Other Expenses ..	1,749	2,236	1,385	1,874	2,446	—
Total Overhead ..	<u>4,830</u>	<u>11,105</u>	<u>7,020</u>	<u>15,747</u>	<u>10,139</u>	<u>11,441</u>
Total Labor & Overhead .....	<u>\$16,671</u>	<u>\$25,391</u>	<u>\$21,256</u>	<u>\$37,634</u>	<u>\$28,498</u>	<u>\$29,129</u>

VII	VIII	IX	X	XI	XII	XIII	XIV
267,395 75% / 25%	316,714 85% / 15%	325,716 45% / 55%	352,826 63% / 37%	387,126 72% / 28%	405,000 57% / 43%	489,962 61% / 39%	508,128 56% / 44%

\$108,284 89,935	\$127,719 105,595	\$122,965 108,959	\$135,744 119,514	\$153,784 129,991	\$162,165 124,500	\$187,352 167,377	\$192,404 169,538
\$ 18,349	\$ 22,124	\$ 14,006	\$ 16,230	\$ 23,793	\$ 37,665	\$ 19,975	\$ 22,866

5,733 1,845 20,201 —	4,506 — 16,568 —	3,650 — 53,039 81,431	4,305 — 24,655 51,472	6,564 3,840 35,932 —	9,009 — 84,213 4,960	6,151 — 38,248 57,019	7,591 — 39,785 106,362
27,779 17,159	21,074 13,199	138,120 125,834	80,432 74,454	46,336 25,899	98,182 74,178	101,418 67,046	153,738 141,430
10,620	7,875	12,286	5,978	20,437	24,004	34,372	12,308
8,722	646	7,611	513	12,350	24,402	18,753	4,695
\$ 37,691	\$ 30,645	\$ 33,903	\$ 22,721	\$ 56,580	\$ 86,071	\$ 73,100	\$ 39,869

VII	VIII	IX	X	XI	XII	XIII	XIV
267,395 75% / 25%	316,714 85% / 15%	325,716 45% / 55%	352,826 63% / 37%	387,126 72% / 28%	405,000 57% / 43%	489,962 61% / 39%	508,128 56% / 44%

\$ 5,700 5,100 14,262	\$ 3,920 — 13,541	\$ 4,368 4,088 25,010	\$ 4,992 — 16,259	\$ 7,505 5,863 18,679	\$ 7,800 5,700 35,460	\$ 5,160 5,100 25,467	\$ 4,992 5,162 19,750
25,062	17,461	33,466	21,251	32,047	48,960	35,727	29,904

1,266 575 326 212 5,744 2,389	1,103 150 39 329 3,372 3,321	1,152 450 708 977 4,859 6,305	1,690 380 982 646 6,330 2,039	1,516 536 620 2,572 3,032 4,335	— — — 5,600 12,837 8,217	765 1,271 1,436 1,159 98 15,028	1,990 66 1,113 679 6,974 1,760
10,512	8,314	14,451	12,067	12,611	26,654	19,757	12,582
\$35,574	\$25,775	\$47,917	\$33,318	\$44,658	\$75,614	\$55,484	\$42,486



**NET PROFIT (LOSS)**  
**Oil Company Stations — Employee Operated**  
**Alberta, 1965**

	I	II	III	IV	V	VI
Gallonage .....	91,130	99,657	107,200	130,571	182,169	187,119
Sales Ratio .....	65% / 35%	74% / 26%	63% / 37%	62% / 38%	78% / 22%	83% / 17%
<b>Revenue</b>						
Gasoline .....	\$ 3,645	\$ 6,981	\$ 6,975	\$ 9,065	\$11,793	\$12,911
Merchandise .....	1,979	2,351	7,825	3,760	3,463	5,777
Repair Labor .....	2,061	3,413	4,488	8,795	5,107	2,705
Gross Profit .....	<u>7,685</u>	<u>12,745</u>	<u>19,288</u>	<u>21,620</u>	<u>20,363</u>	<u>21,393</u>
<b>Expenses</b>						
Labor Costs .....	11,841	14,286	14,236	21,887	18,359	17,688
Overhead .....	<u>4,830</u>	<u>11,105</u>	<u>7,020</u>	<u>15,747</u>	<u>10,139</u>	<u>11,441</u>
Total Labor and Overhead ....	<u>16,671</u>	<u>25,391</u>	<u>21,256</u>	<u>37,634</u>	<u>28,498</u>	<u>29,129</u>
Net Profit (loss)	<u>(\$8,986)</u>	<u>(\$12,646)</u>	<u>(\$1,968)</u>	<u>(\$16,014)</u>	<u>(\$8,135)</u>	<u>(\$7,736)</u>

Source: Oil Company Questionnaire 20.

VII	VIII	IX	X	XI	XII	XIII	XIV
267,395 75% / 25%	316,714 85% / 15%	325,716 45% / 55%	352,826 63% / 37%	387,126 72% / 28%	405,000 57% / 43%	489,962 61% / 39%	508,128 56% / 44%
\$18,349 10,620 8,722	\$22,124 7,875 646	\$14,006 12,286 7,611	\$16,230 5,978 513	\$23,793 20,437 12,350	\$37,665 24,004 24,402	\$19,975 34,372 18,753	\$22,866 12,308 4,695
<u>37,691</u>	<u>30,645</u>	<u>33,903</u>	<u>22,721</u>	<u>56,580</u>	<u>86,071</u>	<u>73,100</u>	<u>39,869</u>
25,062 10,512	17,461 8,314	33,466 14,451	21,251 12,067	32,047 12,611	48,960 26,654	35,727 19,757	29,904 12,582
35,574	25,775	47,917	33,318	44,658	75,614	55,484	42,486
<u>\$ 2,117</u>	<u>\$ 4,870</u>	<u>(\$14,014)</u>	<u>(\$10,597)</u>	<u>\$11,922</u>	<u>\$10,457</u>	<u>\$17,616</u>	<u>(\$2,617)</u>

## CHAPTER 23. ECONOMIES OF LARGER SCALE IN SERVICE STATIONS

Professor T. Barna, a member of The Monopolies Commission of Great Britain stated:

"The pricing policies pursued by the petrol companies, . . . not only do not lead to the lowest costs of distribution but have led to an inefficient system of retail outlets."  
 "That the retailing of petrol is inefficient may be measured both in physical and in financial terms. Most stations are under-utilized. Throughput per station or throughput per pump is low while the retailers margin per gallon is high."

Let us consider two service stations which are identical except for the gallonage of gasoline pumped. In both service stations the operator:

- (a) pays the same wholesale buying price per gallon;
- (b) has the same mark-up per gallon;
- (c) has the same retail selling price per gallon; and
- (d) pays the same hourly labor rates.

The only difference is that in one station the pump attendant is kept busy by twelve customers per hour, while in the other station the pump attendant was not quite so busy, averaging a customer every ten minutes or six customers per hour.

In the busy station the wage cost and the overhead cost would be spread over twice as many gallons per hour which would cut these costs per gallon in half. Accordingly in the low volume station the operator's cost of selling gasoline per gallon would be higher than in the busy station and the operator's profit will be reduced or eliminated.

If the employees of an outlet can handle twice as many gallons by utilizing their time more efficiently, the labor cost per gallon is cut in half.

If the gallonage through an outlet can be doubled, using the same physical facilities, the capital cost per gallon of gasoline handled is cut in half.

The principles of these two propositions are demonstrated by two calculations.

The first calculation shows that wage costs per gallon are substantially less if volume is sufficient to employ a full time pump attendant with no other duties.

The second calculation shows how capital costs per gallon reduce as gallonage increases.

### Wage Cost Per Gallon (Economies of Larger Scale)

#### Assumptions:

- (1) The station is open 18 hours per day.
- (2) At all times there is on duty one full time pump attendant who is paid at a higher than average rate of \$2.00 per hour.
- (3) The pump attendant on the average takes 5 minutes to service a car and makes 12 sales per hour, averaging 6 gallons each.
- (4) At all times there is also on duty one employee working on lube rack, tire repair and other minor repair, who interrupts his work to act as a pump attendant when required and who also is paid \$2.00 per hour.
- (5) The employee who has to leave his lubrication or tire repair to go to the pumps, service the customer, and return to his service bay, is away 10 minutes from his service work each time he sells gasoline to a customer at the pumps.
- (6) The lube and repair employee is called to the pumps 4 times per hour for sales averaging 6 gallons each.

#### Full time pump attendant

$$12 \text{ customers per hour} \times 6 \text{ gallons} = 72 \text{ gallons}$$

$$\text{wage cost per gallon} = \frac{72 \text{ gallons}}{\$2.00 \text{ per hour}} = \underline{\underline{\$0.0278 \text{ per gallon}}}$$

#### Lube and Repair Employee who is interrupted to sell gasoline

$$4 \text{ customers per hour} \times 6 \text{ gallons} = 24 \text{ gallons}$$

portion of hourly wage cost paid for gasoline sales

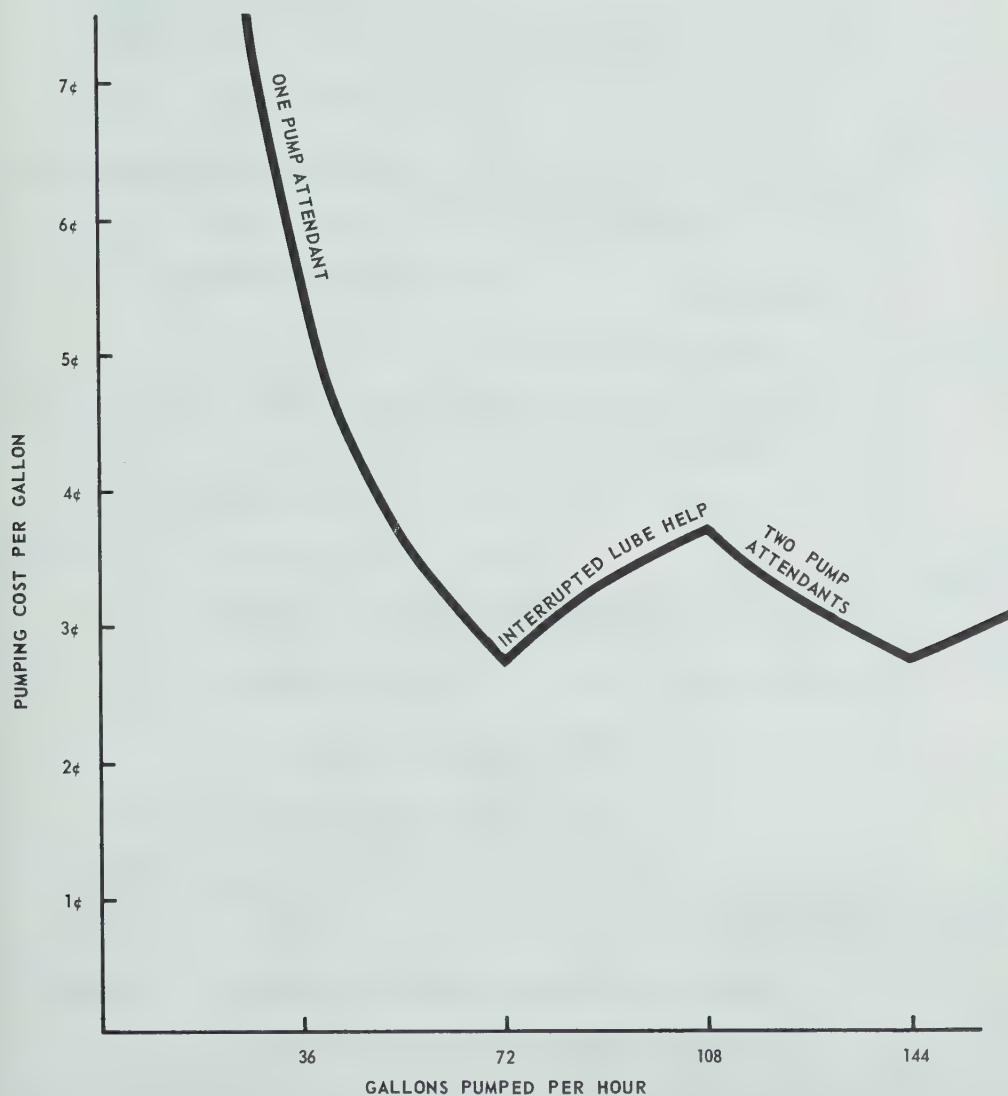
$$4 \text{ customers} \times 10 \text{ minutes} = \frac{40 \text{ min.}}{60 \text{ min.}} \times \$2.00 = \$1.33$$

$$\text{wage cost per gallon} = \frac{\$1.33 \text{ per hour}}{24 \text{ gallons}} = \underline{\underline{\$0.0554 \text{ per gallon}}}$$

CHART 49

LABOR COST PER GALLON

REDUCES WITH LARGER VOLUME



SOURCE: GASOLINE MARKETING INQUIRY RECORDS



**Wage cost per gallon**

interrupted repair employee .....	\$0.0554 per gallon
full time pump attendant .....	<u>0.0278 per gallon</u>
Differential .....	<u>\$0.0276 per gallon</u>

The labor saving by using a full time pump attendant who is always busy is 2¾c per gallon.

**Capital Cost per Gallon (economies of Larger Scale)**

**Additional Assumptions:**

(1) Cost of land .....	\$30,000
Cost of buildings .....	<u>\$70,000</u>
Total cost of service station .....	\$100,000
(2) Cost of capital to oil company 7% per annum.	
(3) Station open 18 hours per day, 365 days per year.	

**The outlet sells 150,000 gallons per year**

With low volume the capital investment is not being used to capacity, so the cost of capital per gallon sold is high.

$$\frac{7}{100} \times \$100,000.00 = \$0.0466 \text{ per gallon}$$

150,000 gallons

**The outlet sells 475,000 gallons per year**

With higher volume, greater use is being made of the capital investment, and the cost of capital per gallon sold is lower.

$$\frac{7}{100} \times \$100,000.00 = \$0.0147 \text{ per gallon}$$

475,000 gallons

**Capital cost per gallon**

if outlet sells 150,000 gallons =	\$0.0466 per gallon
if outlet sells 475,000 gallons =	<u>0.0147 per gallon</u>
Differential .....	<u>\$0.0319 per gallon</u>

**Comparison of Per Gallon Costs**

between

**Service Station Selling 150,000 Gallons**

and

**Service Station Selling 475,000 Gallons**

	150,000 gals.	475,000 gals.
Wage cost per gallon .....	\$0.0554	\$0.0278
Capital cost per gallon .....	<u>0.0466</u>	<u>0.0147</u>
	<u>\$0.1020</u>	<u>\$0.0425</u>

**Combined Differential in per Gallon Costs**

Wage differential per gallon .....	\$0.0276 per gallon
Capital differential per gallon .....	<u>0.0319 per gallon</u>
Total differential .....	<u>\$0.0595 per gallon</u>

The cost per gallon of selling gas in an outlet with a large volume where labor and capital are efficiently used gives a saving of nearly 6c per gallon as compared with the same outlet selling a smaller volume.

The excessive numbers of unnecessary stations insure that the gallonage is not available to permit most stations to effect these economies.

## PART 7

### MAJOR SYMPTOMS OF SERVICE STATION SICKNESS

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## PART 7

### MAJOR SYMPTOMS OF SERVICE STATION SICKNESS

#### CHAPTER 24. LESSEE TURNOVER

##### (1) Lessee Turnover in the United States

A majority of the gasoline sold to the automotive market is sold by service station operators who are lessees from oil companies.

There is a shocking rate of turnover among operators who are lessees of service stations.

The following are the findings of the eighth dealer-turnover study conducted by the Marketing Division of The American Petroleum Institute. This study covered more than 100,000 service stations operated by lessees from oil companies throughout the United States.

In the study a "termination" takes place when there is a change in the lessee dealer for any reason whatsoever, except when the dealer transfers to another station of the same supplier.

For the purposes of the study, terminations "for reasons beyond the control of supplier or dealer" are limited to terminations for any of the following reasons:

- (1) illness of the dealer,
- (2) retirement of the dealer,
- (3) death of the dealer,
- (4) station no longer open for such reasons as: condemnation or sale of property, destruction by fire, cancellation of the basic lease between the company and the owner of the property,
- (5) dealer entering military services.

Table 51.  
Terminations by Number & Percentage (United States)

Year	No. of Active Stations		Dealer Terminations		
			For Reasons Beyond Control	All Other Reasons	Total All Reasons
1965	105,099	No. %	5,352 5.1%	20,276 19.3%	25,628 24.4%
1964	105,175	No. %	5,766 5.5%	20,914 19.9%	26,680 25.4%
1963	104,253	No. %	5,923 5.7%	20,783 19.9%	26,706 25.6%
1962	108,344	No. %	7,161 6.6%	20,845 19.2%	28,006 25.8%
1961	106,604	No. %	8,262 7.7%	20,254 19.0%	28,516 26.7%

Source: American Petroleum Institute, Report No. 12.



**Table 52.**  
**Terminations Per Station (United States)**

No. of Terminations Per Year	No. of Stations	% of Total	Terminations	% of Total
<b>1965</b>				
Once .....	18,902	85.9%	18,902	73.7%
Twice .....	2,662	12.1%	5,324	20.8%
Three times .....	407	1.8%	1,221	4.8%
Four or more times .....	44	0.2%	181	0.7%
<b>Total</b> .....	<b>22,015</b>	<b>100.0%</b>	<b>25,628</b>	<b>100.0%</b>
<b>1964</b>				
Once .....	19,539	85.5%	19,539	73.2%
Twice .....	2,872	12.6%	5,744	21.5%
Three times .....	373	1.6%	1,119	4.2%
Four or more times .....	68	0.3%	278	1.1%
<b>Total</b> .....	<b>22,852</b>	<b>100.0%</b>	<b>26,680</b>	<b>100.0%</b>

Source: American Petroleum Institute, Report No. 12.

**Table 53.**  
**Terminations by Station Gallonage (United States)**

Station Gallonage	Number of Stations	Number Terminations	% of Stations in Category which Terminated
<b>1965</b>			
Less than 100,000 gal./yr. ....	19,043	7,656	40.2%
100,000 to 200,000 gal./yr. ....	34,013	9,881	29.1%
More than 200,000 gal./yr. ....	49,499	7,690	15.5%
<b>1964</b>			
Less than 100,000 gal./yr. ....	19,659	8,461	43.0%
100,000 to 200,000 gal./yr. ....	36,128	10,475	29.0%
More than 200,000 gal./yr. ....	46,667	7,209	15.4%

This study by the Marketing Division of The American Petroleum Institute concluded that percentage turnover continues to be greatest in the smaller volume stations with an annual gasoline sales volume of less than 100,000 gallons.

The stations with an annual volume of less than 100,000 gallons in 1965 represent 19% of the total reported stations but account for 30% of the total turnover.

Source: American Petroleum Institute, Report No. 12.

## **(2) Lessee Turnover in Alberta**

The extreme rate of turnover among service station lessees which is found elsewhere is also found in Alberta. Approximately two-thirds of the service station lessees who terminated in Edmonton had been in the business for less than two years. Approximately 60% of Edmonton lessees have been in business for less than three years.

Many service station lessees conclude after a very short time that their business offers them neither stability nor security. Frequently they struggle along with long hours, low pay, and then terminate having lost the capital they invested.

Two hundred and ten lessee service station operators in cities, towns and villages throughout Alberta were asked how long they had been in charge of the station they were operating. 37% of them had operated their station for two years or less, and 59% of them had operated their stations for 4 years or less. For the entire sample the mean number of years as operator was 4.5 years. This is illustrated in chart 52.

The same sample of 210 lessee operators was questioned regarding previous experience as a service station operator in other stations. 26.7% of them had been an operator for 2 years or less, and 49.5% of them had been an operator for 4 years or less. Their mean years of experience in their current station and all previous stations was 5.9 years. This is illustrated in Chart 53.

Table 54.

## Lessee Service Station Terminations by Number and Percent, Alberta, 1965

	Lessees	Terminations	Percent
"Cartel" Brand .....	1,187	262	22.1%
Other Brand .....	104	26	25.0%
Off Brand .....	41	11	26.8%
<b>TOTAL</b> .....	<b>1,332</b>	<b>299</b>	
<b>Weighted Average</b> .....			<b>22.4%</b>

Source: Questionnaire 3 for both lessees and terminations.

	Lessees	Terminations	Percent
"Cartel" Brand .....	1,114	262	23.5%
Other Brand .....	99	26	26.3%
Off Brand .....	54	11	20.4%
<b>TOTAL</b> .....	<b>1,267</b>	<b>299</b>	
<b>Weighted Average</b> .....			<b>23.6%</b>

Source: Questionnaires 1 and 4 for lessees and Questionnaire 3 for terminations.

Table 55.

## Lessee Service Station Termination Rate — Alberta, 1961-1965

	1965 %	1964 %	1963 %	1962 %	1961 %
Company A .....	33.3%	28.6%	16.7%		
B .....	24.0%	18.9%	14.8%	22.5%	23.7%
C .....	22.8%	17.5%	23.0%		
D .....	19.4%	13.4%	9.4%	14.6%	13.5%
E .....	22.6%	25.3%	23.6%	22.9%	25.8%
F .....	53.8%	57.1%	0.0%		
G .....	41.9%	30.0%	50.0%	42.9%	30.0%
H .....	20.6%				
J .....	16.0%	16.7%	0.0%	23.5%	20.0%
<b>Weighted Average</b> .....	<b>22.6%</b>	<b>20.9%</b>	<b>18.9%</b>	<b>21.4%</b>	<b>22.4%</b>
<b>Number of Companies Reporting</b> .....	<b>9</b>	<b>8</b>	<b>8</b>	<b>5</b>	<b>5</b>

Five year average rate of turnover 21.3%

	1965	1964	1963	1962	1961
Number of Lessees .....	1,304	949	878	716	660
Number of Terminations Reported .....	295	198	166	153	148
% Rate of Terminations .....	22.6%	20.9%	18.9%	21.4%	22.4%
<b>Number of Companies Reporting</b> .....	<b>9</b>	<b>8</b>	<b>8</b>	<b>5</b>	<b>5</b>

Note: Number of lessees and number of terminations are both incomplete being based on those reporting.

Source: Questionnaire 3.

Table 56.

## Terminations Per Station — Alberta, 1965

Frequency of Change	Stations	Percent of Total Stations	Terminations*	Percent of Total Terminations
Once .....	127	81.4%	127	66.5%
Twice .....	23	14.7%	46	24.1%
Three Times .....	6	3.9%	18	9.4%
	<b>156</b>	<b>100.0%</b>	<b>191</b>	<b>100.0%</b>

\* Number of terminations incomplete being based on those reporting.

Source: Service Station History Cards.

**Table 57.**  
**Terminations Per Station — Alberta, 1961-1965**

Frequency of Change	Stations	Percent of Total	Terminations*	Percent of Total
Once .....	192	55.2%	192	30.7%
Twice .....	78	22.4%	156	25.0%
Three Times .....	48	13.8%	144	23.0%
Four Times .....	22	6.3%	88	14.1%
Five Times .....	4	1.1%	20	3.2%
Six Times .....	3	0.9%	18	2.9%
Seven Times .....	1	0.3%	7	1.1%
	<u>348</u>	<u>100.0%</u>	<u>625</u>	<u>100.0%</u>

\* Number of terminations incomplete, they are based on those reporting.

Source: Service Station History Cards.

**Table 58.**  
**Terminations Per Station (by Census Division) — Alberta, 1961-1965**  
**Same Service Station Terminated:**

Census Division	At Least Once	At Least Twice	At Least Three Times	At Least Four Times	At Least Five Times	At Least Six Times	At Least Seven Times	Total Termina- tions
01 .....	5	1	0	0	0	0	0	6
02 .....	22	6	4	1	0	0	0	33
03 .....	5	3	2	2	0	0	0	12
04 .....	0	0	0	0	0	0	0	0
05 .....	3	1	1	0	0	0	0	5
06 .....	128	56	27	8	3	2	1	225
07 .....	3	2	1	1	1	1	0	9
08 .....	13	9	2	1	0	0	0	25
09 .....	9	4	2	1	0	0	0	16
10 .....	10	2	0	0	0	0	0	12
11 .....	127	60	32	14	4	1	0	238
12 .....	1	0	0	0	0	0	0	1
13 .....	0	0	0	0	0	0	0	0
14 .....	3	2	0	0	0	0	0	5
15 .....	19	10	7	2	0	0	0	38
<b>TOTAL</b> .....	<u>348</u>	<u>156</u>	<u>78</u>	<u>30</u>	<u>8</u>	<u>4</u>	<u>1</u>	<u>625</u>
<b>Percent</b> .....	55.6%	25.0%	12.5%	4.8%	1.3%	0.6%	0.2%	100%

625 terminations reported from 1961 to 1965 occurred in 348 stations.

The stations which terminated at least once include the stations which terminated twice or more.

Source: Service Station History Cards.

Table 59.

**Terminations by Station Gallonage; Number of Terminations; Percentage of Total Terminations  
—Alberta, 1961 to 1965**

Gallonage Sold Per Year	0 to 100,000 Gals.		100,000 to 200,000 Gals.		Over 200,000 Gals.		Total	
	No.	%	No.	%	No.	%	No.	%
<b>1965</b>								
Number .....	97		79		29		205	
Percent .....		47%		39%		14%		100%
<b>1964</b>								
Number .....	89		53		26		168	
Percent .....		53%		32%		15%		100%
<b>1963</b>								
Number .....	41		40		4		85	
Percent .....		48%		47%		5%		100%
<b>1962</b>								
Number .....	16		17		6		39	
Percent .....		41%		44%		15%		100%
<b>1961</b>								
Number .....	5		13		4		22	
Percent .....		23%		59%		18%		100%
<b>Total Number*</b> .....	248		202		69		519	
<b>Five Year Weighted Average (%)</b>		48%		39%		13%		100%

\* Number of terminations incomplete, they are based on those reporting.

**Companies Reporting:** 1965—9; 1964—8; 1963—5; 1962—4; 1961—3.

Source: Questionnaire 8.

Table 60.

**Terminations by Station Gallonage; Number of Terminations; Percentage of Total Terminations  
—Alberta, 1961 to 1965**

Gallonage Sold Per Year	0 to 100,000 Gals.		100,000 to 200,000 Gals.		Over 200,000 Gals.		Total	
	No.	%	No.	%	No.	%	No.	%
<b>1965</b>								
Number .....	90		71		30		191	
Percent .....		47.1%		37.2%		15.7%		100%
<b>1964</b>								
Number .....	72		52		28		152	
Percent .....		47.4%		34.2%		18.4%		100%
<b>1963</b>								
Number .....	51		49		7		107	
Percent .....		47.7%		45.8%		6.5%		100%
<b>1962</b>								
Number .....	47		46		9		102	
Percent .....		46.1%		45.1%		8.8%		100%
<b>1961</b>								
Number .....	33		35		5		73	
Percent .....		45.2%		47.9%		6.9%		100%
<b>Total Number*</b> .....	293		253		79		625	
<b>Five Year Weighted Average (%)</b>		46.9%		40.5%		12.6%		100%

\* Number of terminations incomplete, they are based on those reporting.

Source: Service Station History Cards.



Table 61.

**Terminations by Station Gallonage; Number of Terminations by Gallonage Range  
Percentage of Station Terminations in Each Range — Alberta, 1965**

Station Volume	Number of Stations*	Number of Terminations	Percent Turnover
0 - 100,000 Gal./Yr. ....	349	90	25.8%
100,000 - 200,000 Gal./Yr. ....	329	71	21.6%
Over 200,000 Gal./Yr. ....	212	30	14.2%
<b>TOTAL</b> .....	<b>890</b>	<b>191</b>	<b>21.5%</b>

\* Excludes Royalite which did not report, and U.F.A. where circumstances were not comparable. The numbers represent those leased stations reported on Questionnaire 11.

Source: Service Station History Cards.

CHART 50

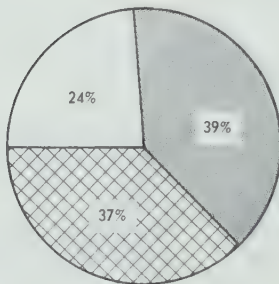
**TERMINATIONS by STATION GALLONAGE**

PERCENTAGE OF TOTAL TERMINATIONS

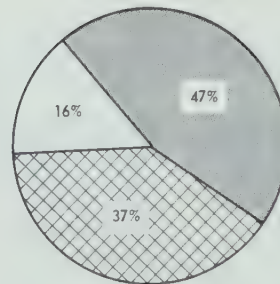
ALBERTA 1965

<u>STATION GASOLINE VOLUME</u>	<u>PERCENT OF TOTAL LEASED STATIONS</u>	<u>PERCENT OF TOTAL TERMINATIONS</u>
0 - 100,000 GALLONS	39%	47%
100,000 - 200,000 GALLONS	37%	37%
OVER 200,000 GALLONS	24%	16%
	100%	100%

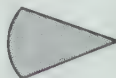
PERCENT OF  
TOTAL  
LEASED STATIONS



PERCENT OF  
TOTAL  
TERMINATIONS



84% OF THE TERMINATIONS OCCURRED IN STATIONS SELLING LESS THAN 200,000 GALLONS.  
16% OF THE TERMINATIONS OCCURRED IN STATIONS SELLING MORE THAN 200,000 GALLONS.



0 - 100,000 GALLONS



100,000 - 200,000 GALLONS



OVER 200,000 GALLONS

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

**Table 62.**  
**Terminations by Station Gallonage (by Census Division) — Alberta, 1961-1965**

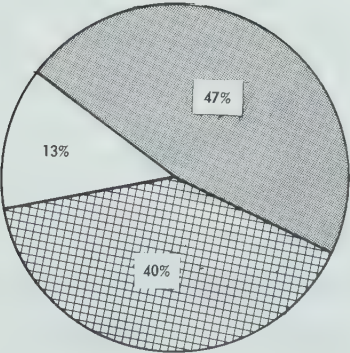
Census Division	0 to 100,000 Gal.	100,000 to 200,000 Gal.	Over 200,000 Gal.	Total
01	4	2	0	6
02	12	18	3	33
03	6	6	0	12
04	0	0	0	0
05	4	1	0	5
06	92	101	32	225
07	9	0	0	9
08	12	8	5	25
09	9	4	3	16
10	8	3	1	12
11	115	91	32	238
12	0	1	0	1
13	0	0	0	0
14	3	2	0	5
15	19	16	3	38
TOTAL	293	253	79	625
Percent	46.9%	40.5%	12.6%	100%

Total terminations reported in 1961 to 1965: 625.

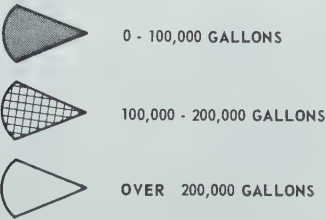
Source: Service Station History Cards.

CHART 51  
**TERMINATIONS by STATION GALLONAGE**  
PERCENTAGE OF TOTAL TERMINATIONS  
ALBERTA 1961 - 1965

STATION GASOLINE VOLUME	PERCENT OF TOTAL TERMINATIONS
0 - 100,000 GALLONS	47%
100,000 - 200,000 GALLONS	40%
OVER 200,000 GALLONS	13%
	100%



87% OF THE TERMINATIONS OCCURRED IN STATIONS SELLING LESS THAN 200,000 GALLONS.  
 13% OF THE TERMINATIONS OCCURRED IN STATIONS SELLING MORE THAN 200,000 GALLONS.



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

Table 63.

## Terminations by Station Gallonage (by Census Division) — Alberta, 1965

Census Division	Number of Lessees*	0 to 100,000 Gal.	100,000 to 200,000 Gal.	Over 200,000 Gal.	Total
01	33	1	0	0	1
02	52	1	7	1	9
03	25	3	3	0	6
04	4	0	0	0	0
05	19	1	0	0	1
06	276	24	33	13	70
07	20	4	0	0	4
08	48	6	1	2	9
09	23	3	0	1	4
10	40	3	0	0	3
11	276	35	22	13	70
12	10	0	0	0	0
13	5	0	0	0	0
14	14	0	0	0	0
15	45	9	5	0	14
TOTAL	890	90	71	30	191
Percent		47.1%	37.2%	15.7%	100%

Total Terminations Reported in 1965 — 191.

\* Excludes Royalite which did not report, and U.F.A. whose figures were not comparable.

Source: Service Station History Cards.

Table 64.

## Terminations by Station Gallonage (by Census Division) — Alberta, 1964

Census Division	0 to 100,000 Gal.	100,000 to 200,000 Gal.	Over 200,000 Gal.	Total
01	0	2	0	2
02	7	3	0	10
03	3	2	0	5
04	0	0	0	0
05	0	1	0	1
06	21	22	12	55
07	1	0	0	1
08	1	2	3	6
09	2	2	1	5
10	3	0	0	3
11	27	12	11	50
12	0	0	0	0
13	0	0	0	0
14	2	0	0	2
15	5	6	1	12
TOTAL	72	52	28	152
Percent	47.4%	34.2%	18.4%	100%

Total Terminations Reported in 1964 — 152.

Source: Service Station History Cards.

Table 65.

## Terminations by Station Gallonage (by Census Division) — Alberta, 1963

Census Division	0 to 100,000 Gal.	100,000 to 200,000 Gal.	Over 200,000 Gal.	Total
01	1	0	0	1
02	2	3	1	6
03	0	0	0	0
04	0	0	0	0
05	1	0	0	1
06	20	18	1	39
07	1	0	0	1
08	0	2	0	2
09	4	0	1	5
10	1	2	0	3
11	18	24	3	45
12	0	0	0	0
13	0	0	0	0
14	0	0	0	0
15	3	0	1	4
TOTAL	51	49	7	107
Percent	47.7%	45.8%	6.5%	100%

Total Terminations Reported in 1963 — 107.

Source: Service Station History Cards.

Table 66.

## Terminations by Station Gallonage (by Census Division) — Alberta, 1962

Census Division	0 to 100,000 Gal.	100,000 to 200,000 Gal.	Over 200,000 Gal.	Total
01	1	0	0	1
02	1	3	1	5
03	0	0	0	0
04	0	0	0	0
05	2	0	0	2
06	15	19	4	38
07	1	0	0	1
08	2	2	0	4
09	0	0	0	0
10	1	0	1	2
11	23	19	2	44
12	0	1	0	1
13	0	0	0	0
14	0	0	0	0
15	1	2	1	4
TOTAL	47	46	9	102
Percent	46.1%	45.1%	8.8%	100%

Total Terminations Reported in 1962 — 102.

Source: Service Station History Cards.

Table 67.

## Terminations by Station Gallonage (by Census Division) — Alberta, 1961

Census Division	0 to 100,000 Gal.	100,000 to 200,000 Gal.	Over 200,000 Gal.	Total
01	1	0	0	1
02	1	2	0	3
03	0	1	0	1
04	0	0	0	0
05	0	0	0	0
06	12	9	2	23
07	2	0	0	2
08	3	1	0	4
09	0	2	0	2
10	0	1	0	1
11	12	14	3	29
12	0	0	0	0
13	0	0	0	0
14	1	2	0	3
15	1	3	0	4
TOTAL	33	35	5	73
Percent	45.2%	47.9%	6.9%	100%

Total Terminations Reported in 1961 — 73.

Source: Service Station History Cards.

Table 68.

## Terminations — Alberta, 1967

Census Division	Once Only	Twice Only	Census Division	Once Only	Twice Only
01	8	0	10	9	1
02	17	0	11	63	4
03	4	0	12	1	0
05	6	0	13	1	0
06	59	5	14	3	0
07	6	0	15	8	1
08	16	2			
09	2	0	Total	203	13

Total Terminations — 229.

Source: Service Station History Cards.

Table 69.

## Terminations Per Station — Alberta, 1967

Frequency of Change	Stations	Percent of Total Stations	Terminations	Percent of Total Terminations
Once	203	94.0%	203	88.6%
Twice	13	6.0%	26	11.4%
	216	100.0%	229	100.0%

Source: Questionnaire 8.



Table 70.

## Terminations by Station Gallonage (by Census Division) — Alberta, 1967

Census Division	0 to 100,000 Gal.	100,000 to 200,000 Gal.	Over 200,000 Gal.	Total
01	5	3	0	8
02	7	9	1	17
03	3	1	0	4
05	5	1	0	6
06	33	28	8	69
07	3	2	1	6
08	7	9	4	20
09	0	1	1	2
10	9	2	0	11
11	28	30	13	71
12	0	0	1	1
13	1	0	0	1
14	2	1	0	3
15	2	5	3	10
Total	105	92	32	229
Percent	45.8%	40.2%	14.0%	100%

Total Terminations Reported in 1967 — 229.

Source: Questionnaire 8.

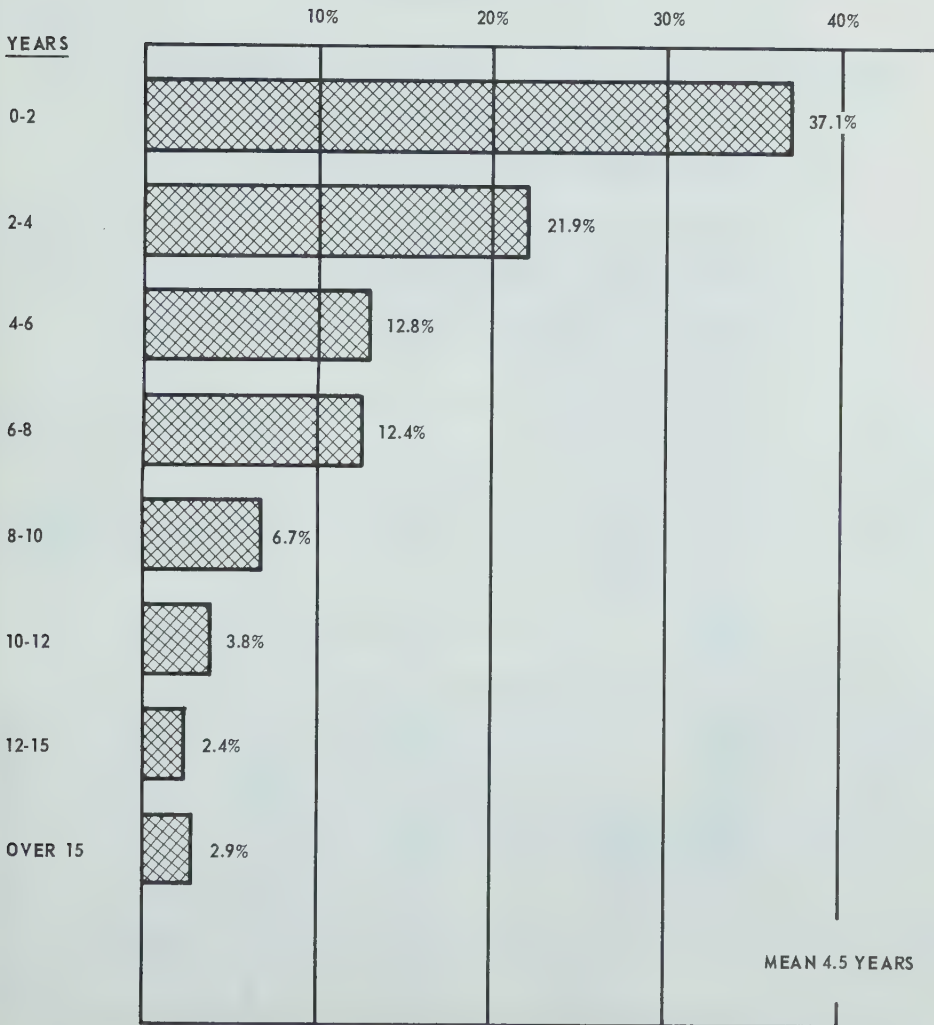
Table 71.  
Experience as a Lessee at this Station

Years of Experience	Number of Operators	Percent
0 - 2	78	37.1%
2 - 4	46	21.9%
4 - 6	27	12.8%
6 - 8	26	12.4%
8 - 10	14	6.7%
10 - 12	8	3.8%
12 - 15	5	2.4%
Over 15	6	2.9%
Total	210	100.0%

Mean 4.5 years.

Source: Service Station Questionnaire: Question 5.

CHART 52  
EXPERIENCE AS A LESSEE  
AT THIS STATION



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

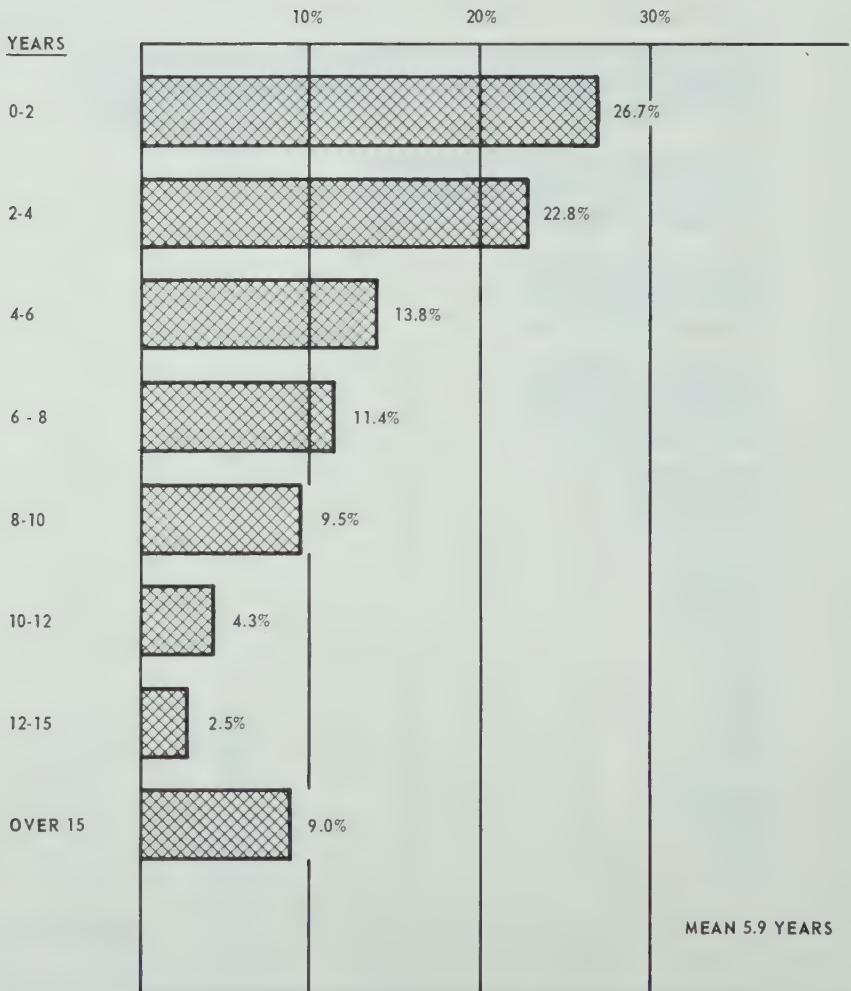
**Table 72.**  
**Experience as a Lessee Service Station Dealer at this and other Stations**

Years of Experience	Number of Operators	Percent
0 - 2	56	26.7%
2 - 4	48	22.8%
4 - 6	29	13.8%
6 - 8	24	11.4%
8 - 10	18	9.5%
10 - 12	9	4.3%
12 - 15	5	2.5%
Over 15	19	9.0%
Total	210	100.0%

Mean 5.9 years.

Source: Service Station Questionnaires, Questions 5 and 6.

**CHART 53**  
**EXPERIENCE AS A LESSEE**  
SERVICE STATION DEALER  
AT THIS AND OTHER STATIONS



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

**(3) Loss of Lessee Investment**

In oil company questionnaire 5, question 21 requested the oil companies to outline the operating capital and financial equity that a prospective lessee is required to have.

The replies of four of the major marketers operating in Alberta were as follows:

**Company A**

Equipment .....	\$2,000.00
Gasoline Inventory .....	2,000.00
Other Stock .....	1,000.00
Working Capital .....	1,000.00
Total .....	<u>\$6,000.00</u>

**Company B**

Tools, Equipment and Stock .....	\$4,000.00
Operating Capital .....	3,000.00
Total .....	<u>\$7,000.00</u>

**Company C**

This company pointed out that the funds required to stock, equip and operate a service station vary considerably depending on location and volume of business. A separate estimate is made for each station "outlining in detail, merchandise required, service station equipment required, operating funds for first month, and payroll for the lessee and employees for two months." The minimum requirement usually works out to \$5,000 and in larger stations rises as high as \$10,000.

**Company D**

"In general, we consider that a minimum of \$4,000 to \$5,000 in capital is required to stock and operate a standard 2-bay outlet (representing an investment of from \$40,000 to \$80,000 on the part of the company) selling about 150,000 gallons of gasoline per year."

In practically all terminations the lessee claims a loss of some or all of his initial investment.

In respect of each service station where a termination occurred we asked the oil companies to prepare a "Service Station Lease Termination Report" in the form outlined in oil company questionnaire 8. This questionnaire asked the oil company for its best estimate of

- (a) the amount invested by the lessee on commencement; and
- (b) the amount realized by the lessee upon termination.

The oil companies in response to our questionnaires stated in general that they did not know the amount of the lessee's initial investment, nor did they have any means of determining how much of his investment he realized upon termination. They pointed out some of the other obvious problems of measuring changes in value of equity or investment. For instance, if two lessees have made identical investments and have circumstances which are identical in every respect, one could reduce his equity by drawing excessive drawings while the other could increase his equity by taking inadequate drawings.

However, the committee inquired into the financial circumstances of a large number of individual service stations in which terminations had occurred and interviewed both current operators and former operators.

From such examinations, it is our opinion that in most cases

- (a) the operator was not paid adequately for his time and effort; and
- (b) the operator at the same time suffered a loss of capital invested.



In most cases the operator accepted inadequate remuneration for his long hours and hard work in the hope of building a business that would be remunerative in the future. At the same time his capital dwindled in his efforts to keep the business going.

By the time the operator decided to terminate, either in the rare case of bankruptcy, or in the more common case of realization that he was losing ground and could never make a financial success, he had experienced two kinds of loss, namely:

- (a) he hadn't been paid adequately for the time spent and received less than he would have received in other employment; and
- (b) he had lost the savings accumulated prior to his entry into the service station business.

Both of these types of loss are extremely difficult to measure.

However, if a former operator had more earnings before he became a service station operator and more earnings after he ceased being a service station operator than he did during the period that he was a service station operator, it appears reasonable to conclude that he had a loss of earnings during the period he was a service station operator.

In the case of a former service station operator who had accumulated savings before he entered the service station business, took no drawings or salary whatever during the period he operated a service station, and abandoned the business having lost some of the capital invested, it is clear that he suffered both a loss of income and a loss of capital.

A mechanic who was paid at the rate of \$2.50 per hour for an eight hour day as an employee, accepts an oil company offer to become operator of a service station. As an operator he finds he is working from 12 to 15 hours per day for less take-home pay than he earned as a mechanic in 8 hours. He also earns less than he is paying by way of salary to the mechanic he now employs who is working 8 hours daily. When such a man terminates as an operator, having lost the savings he accumulated as a mechanic, it is hard not to believe him when he states he has lost both income and savings during the time he was a service station operator.

Although it is difficult to measure the loss of income and the loss of investment that has been incurred by an operator who terminates, the Committee is convinced that such losses do occur in varying degree in the cases of large numbers of terminations.

In the multiple termination station, particulars of which are shown in Table 89, there were six operators in a period of five years. The average loss of capital per operator was \$3,350. Based on the hours worked by each operator and assuming each operator should earn the minimum wage of \$1.25 per hour for the hours worked, we calculated that the wages lost per operator exceeded \$2,100. If you assume the operator should earn as much as his mechanic, the wage loss is more than doubled.

If we assume an average capital loss of \$2,000.00 per termination and an average income loss of \$2,000.00 per termination and there are 300 terminations per year, this means that the terminating operators have contributed \$1,200,000.00 per year either in cash or labor for the purpose of keeping service stations owned by oil companies open for the sale of their brand name products to the public.

There were many cases where the Committee was convinced that the operator's loss exceeded the amounts assumed above. These assumed amounts are less than the amounts reported by many former operators. On the basis of extensive inquiry into this subject, it is our opinion that these assumptions are not unreasonable.

#### **(4) Edmonton License Terminations—Leased Service Stations**

To obtain confirmation of the extent of lessee turnover from public sources which are not confidential, the Committee did a study of the records of the City of Edmonton license department and the assessment department. The information

from these sources and from other public records was then confirmed by interviews with service station operators and former operators. The principal objectives were

- (a) to obtain additional information on the number and incidence of lease terminations in Edmonton; and
- (b) to obtain information about operators, their movement from company to company, and facts relating to the termination of their activity in the service station business.

Our findings are set out in the following tables. For purposes of these tables, if a lease had been held by two or more partners and the lease was terminated, this is treated as one termination. Where a partnership of two or more persons gave up a lease and one of those persons obtained a new lease this is also treated as a single termination. In a case where an operator held a lease and decided to incorporate his business and take a new lease in the name of the company, this has not been treated as a termination.

On the 10th of November 1966 Edmonton had licensed 381 outlets to retail gasoline, of which 291 were operated by dealers who were lessees from oil companies. The following tables deal with these 291 lessee dealers.

Table 73.  
Edmonton — License Terminations Per Leased Service Station  
January 1, 1961 to November 10, 1966

Column 1 indicates the total number of leased stations, listed by brand, Columns 2-9 list the number of stations which have had varying number of license terminations during the above mentioned period. For example, reading across from Imperial, Column 2 would indicate that there were 33 Imperial stations in which there were no license terminations; Column 3 indicates that there were 13 Imperial stations with one license termination, etc.

Column No.:—	1	2	3	4	5	6	7	8	9
	Total No. of Lessee Stations	License Terminations Per Station							
Brand		0	1	2	3	4	5	6	7
Imperial	55	33	13	3	3	2	1		
B.A.	43	18	10	6	5	3	1		
Shell	50	14	9	7	9	5	4	1	1
White Rose	21	6	4	3	4		3	1	
Texaco	38	14	10	10	3	1			
Royalite	41	11	14	8	3	2	2	1	
Husky	9	2	2	2	2		1		
Pacific	19	9	3	4	2	1			
All others	15	5	4		2	1	1	1	1
Total	291	112	69	43	33	15	13	4	2

112 leased service stations had no terminations.  
179 leased service stations had one or more terminations.  
291 total number of service stations.

Table 74.  
Edmonton — License Terminations Per Year, Lessee Service Stations  
January 1, 1961 to November 10, 1966

Brand	Total No. of Lessee Stations	1961	1962	License Terminations 1963	Per Year 1964	1965	To Nov. 10 1966
Imperial	55	3	5	3	9	11	10
B.A.	43	7	11	9	6	13	8
Shell	50	17	21	24	16	15	10
White Rose	21	6	12	12	6	3	4
Texaco	38	6	4	5	7	12	9
Royalite	41	12	7	9	13	10	12
Husky	9	2	6	3	2	3	1
Pacific	19			1	2	8	10
All others	15	2	5	4	4	10	7
Total	291	55	71	70	65	85	71

Of 291 lessee operated stations 179 had license terminations.

Total number of license terminations ..... 417

Number of license terminations per leased station .....  $\frac{417}{291} = 1.4$

Number of license terminations per  
leased station where terminations  
occured .....  $\frac{417}{179} = 3.72$

In the 179 stations where terminations occurred a new lessee was licensed every  
18 months on the average.

Table 75.  
Edmonton — Length of Tenancy  
Former Lessees who Terminated Between January 1, 1961 and November 10, 1966

Brand	1-12 months	13-24 months	25-36 months	37-48 months	49-60 months	over 60 months	Total No. of Tenancies
Imperial	9	12	2	6	2	9	40
B.A.	18	15	10	3	4	7	57
Shell	47	29	13	9	1	5	104
White Rose	33	9	2		2	2	48
Texaco	9	12	3	8	2	10	44
Royalite	19	18	6	4	2	8	57
Husky	7	5	2	2			16
Pacific	11	4	5				20
All Others	21	8			1	3	33
Total	174	112	43	32	14	44	419

Of 419 Edmonton Lessees who terminated, 286 or 68.25% left the service  
station business in less than 2 years.

Table 76.  
Edmonton — No. of Leases Operator Has Held

	No. of Leases Operator Has Held				
	1	2	3	4	Total
Current Operators .....	261	44	3	2	366
Former Operators .....	322	23	2	1	378
Total .....	583	67	5	3	744

Table 77.  
Edmonton — Former Lessees

No. of Leases Held Before Termination				
Brand	After 1 lease	After 2 leases	After 3 leases	After 4 leases
Imperial .....	28	1		
B.A. ....	46	4		
Shell .....	71	11		
White Rose .....	37	2	1	1
Texaco .....	39			
Royalite .....	46	2	1	
Husky .....	14			
Pacific .....	16	2		
All others .....	25	1		
Total .....	322	23	2	1

N.B.: Former operators who left the service station business after three and four leases all had more than one lease in the same outlet. For example, an operator leased a station in partnership with another operator, and then leased it on his own.

Table 78.  
Terminations to Move to Other Stations  
Edmonton — Current Operators (1966)

	1	2	3	4	5	6	7	8	9	10	11
From Brand	No. of Moves	To:— Imperial	B.A.	Shell	White Rose	Texaco	Royalite	Husky	Pacific	All Others	
Imperial .....	7	6		1							
B.A. ....	5		4							1	
Shell .....	12		2	7		2					1
White Rose ....	5	1			3						1
Texaco .....	5			1		1	1			2	
Royalite .....	2				1		1				
Husky .....	2			1				1			
Pacific .....	1								1		
All Others ....	4						1			1	2 = 26
Totals .....	43	1	2	3	1	2	2		4	2	17 = 43

35 operators involved out of 291 lessees  
 Moves to other station — same brand 26  
 Moves to other station—different brand 17  
 Total number of moves ..... 43

Table 79.  
Terminations to Move to Other Station  
Former Edmonton Operators

	1	2	3	4	5	6	7	8	9	10	11
From Brand	No. of Moves	To:— Imperial	B.A.	Shell	White Rose	Texaco	Royalite	Husky	Pacific	All Others	
Imperial .....	1		1								
B.A. ....	2			1						1	
Shell .....	7		1	5							
White Rose .....											
Texaco .....											
Royalite .....	5		1	1	1		2				
Husky .....	1			1							
Pacific .....	1			1							
All others ....	2				1		1				7 = 19
Totals .....	19		3	4	2		1		1	1	12 = 19

19 operators involved out of 291 lessees.  
 Moves to other station — same brand ..... 7  
 Moves to other station — different brand ..... 12  
 Total number of moves ..... 19



Table 80.  
Length of Tenancy  
Current Lessees of Edmonton Service Stations (1966)

Brand	No. of Lessee Stations	Year Licensee Obtained License as Operator										
		Before 1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Imperial .....	55	6	4	2	3	9	2	3	1	4	15	6
B. A. ....	43	4	2		2	5	1	3	3	4	11	8
Texaco .....	38	1	1		2	3	1	1	3	4	12	10
Shell .....	50	4	1	1	2		3	3	7	8	12	9
White Rose .....	21	1			1			3	5	3	5	3
Royalite .....	41	4		1		1	4	1	5	6	9	10
Husky .....	9							2		2	4	1
Pacific .....	19								2	2	5	10
All Others .....	15		1							1	5	8
Totals .....	291	20	9	4	10	18	11	16	26	34	78	65

Of 291 Edmonton lessees, 177 or almost 60% have been lessees of their service stations for less than 3 years.

### (5) Calgary License Terminations, Leased Service Stations

The Committee did a study of public records relating to the service stations in the City of Calgary in much the same manner as it did in the case of the City of Edmonton. The information from such public sources was similarly confirmed by interviews with service station operators and former operators.

The study covered the period from January 1, 1961 to November 10, 1966, and on the latter date Calgary had licensed 397 outlets to retail gasoline of which 304 were operated by dealers who were lessees from oil companies. The following tables deal with these 304 lessee dealers.

Table 81.  
Calgary — License Terminations Per Leased Service Station  
January 1, 1961 to November 10, 1966

Column 1 indicates the total number of leased stations, listed by brand. Columns 2-9 list the number of stations which have had varying number of license terminations during the above mentioned period.

Column No.:—	1	2	3	4	5	6	7	8	9
Brand	Total No. of Lessee Stations	0	1	License Terminations 2	Terminations 3	Per 4	Station 5	6	7
Imperial .....	49	22	17	7	2	1			
B. A. ....	45	24	11	8	1	1			
Shell .....	62	21	19	13	5	4			
White Rose .....	20	7	7	4	1		1		
Texaco .....	47	13	14	9	8	3			
Royalite .....	41	12	13	9	6	1			
Husky .....	8	3	1	2	1	1			
Pacific .....	26	16	8		1	1			
All others .....	6	2	3		1				
Totals .....	304	120	93	52	26	12	1		

120 leased service stations had no terminations.

184 leased service stations had one or more terminations.

304 total number of leased service stations.

Table 82.

**Calgary — License Terminations Per Year, Lessee Service Stations  
January 1, 1961 to November 10, 1966**

Brand	Total No. of Lessee Stations	1961	1962	1963	1964	1965	To Nov. 10 1966
Imperial .....	49	5	5	9	12	9	1
B.A. ....	45	2	6	3	9	11	3
Shell .....	62	13	7	14	20	8	14
White Rose .....	20	4	7	2	4	4	2
Texaco .....	47	9	12	15	14	10	8
Royalite .....	41	4	10	13	9	6	11
Husky .....	8	1	3	1	2	3	2
Pacific .....	26		1	1	3	6	4
All others .....	6		1	2	1		2
<b>Totals .....</b>	<b>304</b>	<b>38</b>	<b>52</b>	<b>60</b>	<b>74</b>	<b>57</b>	<b>47</b>

Of 304 lessee operated stations 184 had license terminations.

Total number of license terminations ..... 328

Number of license terminations per station .....  $\frac{328}{304} = 1.07$

Number of license terminations per station  
in stations where terminations occurred .....  $\frac{328}{184} = 1.89$

In the 184 stations where terminations occurred, a new lessee was  
licensed every 37 months on the average.

Table 83.

**Calgary — Length of Tenancy  
Former Lessees Who Terminated Between January 1, 1961 and November 10, 1966**

Brand	1-12 months	13-24 months	25-36 months	37-48 months	49-60 months	over 60 months	Total No. of Tenancies
Imperial .....	7	4	5	2	6	8	32
B.A. ....	9	4	7	6	3	7	36
Shell .....	29	20	7	5	7	10	78
White Rose .....	5	9	1	1	4	2	22
Texaco .....	25	20	14	2	1	8	70
Royalite .....	14	21	7	5	2	6	55
Husky .....	7	2	2	1			12
Pacific .....	3	6	1	2			12
All others .....	4	1				1	6
<b>Totals .....</b>	<b>103</b>	<b>87</b>	<b>44</b>	<b>24</b>	<b>23</b>	<b>42</b>	<b>323</b>

Of 323 Calgary lessees who terminated, 190 or 58.82% left the service station  
business in less than 2 years.

Table 84.

**Calgary — No. of Leases Operator Has Held**

	No. of Leases Operator Has Held				Total
	1	2	3	4	
Current Operators .....	257	71	8	4	439
Former Operators .....	280	17	4		326
<b>Total .....</b>	<b>537</b>	<b>88</b>	<b>12</b>	<b>4</b>	<b>765</b>

Table 85.  
Calgary — Former Lessees  
No. of Leases Held Before Termination

Brand	After 1 lease	After 2 leases	After 3 leases	After 4 leases
Imperial .....	32			
B.A. ....	34	1		
Shell .....	60	5	2	
White Rose .....	19	1		
Texaco .....	58	7		
Royalite .....	51	1	1	
Husky .....	9	1	1	
Pacific .....	11	1		
All others .....	6			
Total .....	280	17	4	

Table 86.  
Terminations to Move to Other Station  
Calgary — Current Operators (1966)

1	2	3	4	5	6	7	8	9	10	11
From Brand	No. of Moves	To:— Imperial	B.A.	Shell	White Rose	Texaco	Royalite	Husky	Pacific	All Others
Imperial .....	11	9		1				1		
B.A. ....	5		3	1			1			
Shell .....	12	1		8	1	1			1	
White Rose ....	2			1	1		1			
Texaco .....	6			1		3	1		1	
Royalite .....	7				1	2	3		1	
Husky .....	4			3	1					
Pacific .....	2			1					1	
Others .....	2									2 = 30
Totals .....	51	1	0	7	3	3	3	1	3	= 21

51

45 operators involved out of 304 lessees.  
 Moves to other station (same brand) ..... 30  
 Moves to other station (different brand) ..... 21  
 Total number of moves ..... 51

Table 87.  
Terminations to Move to Other Station  
Former Calgary Operators

1	2	3	4	5	6	7	8	9	10	11
From Brand	No. of Moves	To:— Imperial	B.A.	Shell	White Rose	Texaco	Royalite	Husky	Pacific	All Others
Imperial .....										
B.A. ....										
Shell .....	9			6				2	1	
White Rose ....	2				1	1				
Texaco .....	6					5	1			
Royalite .....	1					1				
Husky .....	1							1		
Pacific .....										
Others .....										13
Totals .....	19	0	0	0	0	2	1	2	1	= 6

19

15 operators involved out of 304 lessees.  
 Moves to other station — same brand ..... 13  
 Moves to other station — different brand ..... 6  
 Total number of moves ..... 19

Table 88.  
Length of Tenancy  
Current Lessees of Calgary Service Stations (1966)

Brand	No. of Lessee Stations	Year Licensee obtained license as operator										
		Before 1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
Imperial .....	49	5	2	2	3	3	2	2	6	10	13	1
B.A. ....	45	6	2	3	4	2	2	4	3	7	9	3
Texaco .....	47	2			1	2	1	6	4	11	9	11
Shell .....	62	1	3	1	3	3	7	3	6	13	6	16
White Rose .....	20			1	1	1		3	2	5	5	2
Royalite .....	41	2			2	1	1	5	5	8	6	11
Husky .....	8						1	1	1	1	2	2
Pacific .....	26							2	2	6	8	8
Others .....	6	1					1		1	1		2
Totals .....	304	17	7	7	14	12	15	26	30	62	58	56

Of 304 Calgary lessees, 176 or almost 58% have been lessees of their service stations for less than 3 years.

### (6) Multiple Termination Stations

The American Petroleum Institute Study found that stations with a volume of less than 100,000 gallons per year had a turnover rate of 40.2% per year.

Our Edmonton service station license study covering a period of less than 6 years, found there were 112 leased stations which had no terminations, but there were 179 leased stations in which 417 terminations occurred during the period. This was an average termination rate of once in approximately 18 months.

The service station operator whose experience was described in the case history entitled "John Doe Termination" was the sixth operator to occupy that station in a period of 5 years. Each of these 6 operators was interviewed regarding his experiences in this station and the following table shows some of the information they provided.

Table 89.  
Termination History of Station "X"  
Multiple Termination Station

Operator	Months of Occupancy	Weekly Hours Worked	Weekly Wages Drawn	Money Lost
A "Mr. A" .....	16	110	\$59	\$ 9,000
B .....	12	50	0	3,500
C .....	8	83	35	2,000
D .....	8	65	0	800
E .....	7	50	0	2,100
F "John Doe" .....	2	72	0	2,700
				\$20,100

During this 5 year period it cost these 6 operators the total of \$20,100 to keep this station open for the sale of the brand name products of the oil company which owned it. The money lost by each operator in turn represented a majority of his life's savings. In addition each operator spent long hours trying to establish and develop his new business and took out little or no wages for the time spent. Accordingly each operator lost not only his capital investment but his time spent at no remuneration or inadequate remuneration. Notwithstanding 6 failures in 5 years in this station the oil company advertised for and quickly found another lessee who was encouraged to invest his money and time by descriptions of the joys and profits which are the reward of "an independent businessman".

The turnover rate of service station lessees is extremely high. The oil companies point out that terminations include normal retirements and moves of operators from one station to another.

1509 service station operators were checked and only 74, or less than 5% had been involved in transfers from one station to another.



A survey was conducted of former operators. Practically none of them were cases of normal retirement and virtually all terminated because of business failure or the probability of business failure. The principal reasons given for termination were long hours, low income, and numerous business frustrations arising from the oil company contracts tying the outlets and restricting the operator from exercising free business judgment.

Most former operators had sought and found other employment offering better remuneration, shorter hours, and more freedom.

#### **(7) Oil Company Lease Termination Reports Relating to Their Service Stations**

With a termination rate of more than 20% of all lessee dealers per year, and with 48% of lessee dealer terminations occurring in stations with a volume of 100,000 gallons or less, this appeared to the Committee to be one of the major problems in the gasoline marketing business. We assumed a problem of this magnitude would be of considerable concern to the oil companies and that they would have studied the problem and assembled a good deal of information.

In response to our inquiries, the oil companies appeared to have very little information and still less concern.

We gained the impression that the oil companies have available an infinite amount of information about barrels of oil and gallons of gasoline down to four or five decimal points, but that service station operators are expendable and very little about them is known or recorded.

In oil company questionnaire 8 we requested each oil company to prepare a "service station lease termination report" about each of their terminations in a 5 year period outlining some facts about the station and about the lessee which might be helpful in studying the problems of terminations and their causes.

We had inspected several hundred stations, interviewed the current operators, and had questionnaires on file containing considerable information relating to these stations. We also had information provided by the oil companies relating to each service station in the province. We thought we would have a better understanding of the reasons for termination in a particular station if we could correlate—

- (a) the information received from the current operator in answer to our service station questionnaire; and
- (b) the information from the oil company about that station; and
- (c) the information from the oil company contained in one or more lease termination reports relating to that station; and
- (d) the information obtained by our interviews of former operators of that service station.

Questionnaire 8 was sent out to the oil companies on the 8th of September, 1966 and it was a year later before we had the replies from all the oil companies.

The replies relating to hundreds of the terminations were incomplete, the oil companies stated that much of the information was "not available" and where questions were answered they cautioned that the replies should not be relied upon as they had reason to doubt their accuracy.

We wanted information relating to the dates on which the lessee commenced as an operator and ceased to operate the station in order to determine how long he had operated the station. In scores of cases the oil companies could not advise us when the operator first became a lessee of the station.

We asked for the oil company's best estimate of the amount invested by the lessee on commencement and of the amount he realized from his investment on termination. One company in commenting on why it had not answered either of these questions in respect of any of its stations stated in part—

"While the financial statements prepared upon leasing the service station are believed to represent the resources available to the prospective lessee and are acceptable for bonding purposes, we do not always know how much money has been obtained through private arrangements."

This company pointed out that even if answers were able to be given, a simple comparison would not give a valid measure of the increase or decrease in equity, and that "excessive drawings on the part of the lessee could produce an apparent decrease in equity".

Another oil company which did not answer these two questions for any of its terminations stated:

"Historical data is not maintained . . . relative to investment of lessees on commencement and termination. We are not in possession of sufficient information to satisfactorily estimate the amounts involved".

The inability or omission of oil companies to answer these questions is contrasted with the positive statements of large numbers of operators and former operators who allege low pay and inadequate drawings accompanied by loss of some or all of their investment.

Our request to the oil companies for figures for the gallonage of gasoline sold in the months prior to termination were frequently answered with the words "not available".

In explanation one company stated

"Records of monthly sales volumes are available only for the years 1964-1965. Marketing records of this detail have been destroyed in the normal operation of our file maintenance system".

Another company's monthly records only went back to July of 1964 for similar reasons.

Many of the oil companies had told us in our inquiries relating to rent that their rentals were related to the business opportunity available to the dealer and were based on the company's estimate of the operator's income. In connection with terminations we wanted to know the company's estimate of the operator's income and whether the operator's dissatisfaction with his income was apparently one of the causes for termination. One company stated it had not answered the question about the operator's income—

"... because we feel that our knowledge of individual dealers profits is inadequate and our estimates could be misleading"

"To attach any real significance to any operator's 'dissatisfaction' would require a knowledge of his earning power in other forms of employment, his previous income and his subsequent income after terminating his lease".

"There can be no doubt that a number of terminations have been the result of 'dissatisfaction' but whether this 'dissatisfaction' stems from extravagant expectations, truly limited earning opportunities, or some other reason is a virtually impossible question to answer."

We asked the oil companies to list reasons other than income given by the operator for termination. One oil company pointed out that in the reports where it answered this question, the answer must be viewed with some caution, and stated—

"When a lessee gives notice of intention to terminate to the salesman, it is impossible to know whether the reasons which are given are in fact, the true causes of termination, or whether the lessee has merely provided an answer which is rationalization for a decision made for some other reason. Furthermore, it is quite possible that on occasion the salesmen have allowed some of their personal feelings to color the manner in which they have recorded the reasons discussed with them by the lessees."

Several of the oil company representatives with whom we were dealing in respect of their questionnaires expressed misgivings concerning the reliability of their lease termination reports because the required information was either not recorded or preserved in their company records, or what was recorded did not accurately depict what happened in some cases where they had personal knowledge.

How unreliable much of the information was soon became apparent from checking these reports and by comparison with other sources of data. This can best be illustrated by one or two examples from the termination reports.

One oil company reported on a station where the monthly gallonage in the months before termination was about 2,000 gallons per month and the annual gallonage did not exceed 24,000 gallons. Based on the dealer's mark-up, there would



be a gross annual income from gasoline sales of less than \$1,900.00. This gross income would be reduced by the cost of the labor to sell the gasoline and by the other overhead costs of the station. The oil company replied that the operator's dissatisfaction with his net income was not one of the causes for termination.

The former operator when interviewed gave lack of income as his principal reason for termination. Having regard to the gallonage and the earnings of the service station it was difficult not to believe the operator while the oil company reply did not appear to be reasonable in the circumstances.

In another case where the oil company answered that the operator did not appear to be dissatisfied with his net income, they stated that in their opinion he left to "take other employment". Upon interviewing the former operator he indicated he was making less money as an operator working 16 hours a day than he could make as an employed mechanic working 8 hours a day. His dissatisfaction with low earnings, notwithstanding long hours, was the principal cause for his termination.

In another termination where the lessee commenced in April and terminated at the end of June, his total gallonage for the three months was less than 10,000 gallons and his gross mark-up on gasoline for the three months was less than \$800.00. In these circumstances the oil company did not estimate the operator's net income, but it stated that dissatisfaction with his net income was not an apparent cause for termination. The oil company opinion as to the cause of termination was—"low volume unit and extremely high overhead expense." With low volume and high expense it is obvious that there would be little net income and equally obvious why an operator would terminate before the end of his third month. There was simply no possibility of earning a reasonable living from a business with such a small volume of gasoline sales.

In Edmonton in the notorious MacGregor case the operator insisted on surrendering a 24 hour permit which the oil company desired him to retain and this dispute led to the termination of his lease. The dispute went before the courts and there were headlines in The Edmonton Journal over various steps in the proceedings during a period of several weeks. In the oil company termination report relating to this termination

- (a) Question 11 inquiring whether the operator's dissatisfaction with his net income appeared to be one of the causes for termination was not answered.
- (b) Question 12 requesting other reasons given by the operator for termination was answered with the words "inefficient management".
- (c) Question 14 requesting the oil company's opinion of the qualifications, ability and attitude of the operator was not answered.
- (d) Question 15 requesting the oil company's opinion as to the causes of termination was not answered.

If there is any case in Alberta where the cause of termination should be known to the oil company the MacGregor case is it. If its other answers are no more informative as to the real cause of termination than its answers about the MacGregor case, then its termination reports cannot be relied upon.

Numerous termination reports prepared by various oil companies were answered with generalizations, or were equally uninformative.

If such replies on oil company termination reports were indicative of the quality and accuracy of their recorded causes for termination, it appeared that little could be learned about the actual causes of termination by tabulating and analyzing such replies.

By comparison the replies of former operators as to their problems, and their reasons for termination appeared to conform to other data we had correlated on the particular station.

The former operators unquestionably view the problem from a partisan point of view, but generally we had the impression that they were trying to objectively state the facts and assess the causes of termination to the best of their ability.

As the oil companies appear to be unable to provide specific reliable information about the causes for particular terminations, the Committee had no choice but to rely on information from other sources such as former operators, current operators and reports from the Committee's interviewers.

**(8) Former Operators—Reasons for Termination**

The following information was compiled from interviews with a sample of former operators.

Approximately 40% of former operators interviewed had worked in a completely unrelated occupation before becoming a service station operator. About 30% had previous experience in a service station as an employee or lessee. Previous occupation in about 10% of the cases was that of an automobile mechanic.

We inquired into the reasons of the former operator for leasing this particular station. In about 36% of the cases he saw that the station was vacant and available and thought it was a good opportunity to go into business. In about 18% of cases he answered an oil company advertisement. In about 14% of cases he was working at the station and had an opportunity to take it over when the former operator terminated.

The former operators were asked what information they had about the station before they leased it and from whom they obtained it. In a majority of cases the only information they had came from the oil company. In only a small minority of cases was any information obtained from the previous operator. In general the quality of such information as was obtained was good although it was incomplete, and the prospective new entrant did not understand the significance of much of the information he did obtain.

On the question of education and training, over 20% of the former operators had a grade 8 education or less and no other training. About 50% of former operators had only completed part of their high school, and only small percentages of them had trade or technical training, mechanical training, or training in accounting or salesmanship.

Most former operators stated that extremely long hours were required in the service station business. The hours worked per week reported by former service station operators averaged 82½ hours. In more than 20% of the cases the wives of the former operators had been required to work as well and their hours averaged 35 hours per week. In stations where the former operator and his wife both worked, their average weekly hours totalled 92½ hours. After leaving the service station business the former operator had obtained new employment. The average hours worked per week in the new employment was 46 hours as compared with 82½ hours as a service station operator.

During the time that they were service station operators less than 4% reported hours less than 60 hours per week, 18% reported hours from 61 to 70 per week, 36% reported hours from 71 to 80 per week, 18% reported hours from 81 to 90 per week, and 18% reported hours in excess of 100 per week.

Their present employment showed a sharp contrast in hours where 4% worked 30 hours or less per week, 20% worked from 31 to 40 hours per week, 44% worked from 41 to 44 hours per week, and only 4% reported hours in excess of 60 hours per week.

79% of former operators considered there were too many service stations and that fewer stations could have handled the gas and services required by the public in the area in which their former service station was located.

Nearly 29% of former operators terminated within 12 months of their commencement and nearly 54% terminated within 2 years.

Time Spent as Operator	% of Former Operators
6 months or less	7.47%
7 to 12 months	21.43%
13 to 24 months	25.00%
24 to 36 months	10.71%
37 months or more	35.71%



The average initial investment reported by former service station operators was \$5,254.00. During the months they continued to operate in the struggle to establish their business, most reported additional investments of capital. The average total investment reported prior to termination was \$5,915.00.

Over 70% of former operators reported that on termination they sold their stock and equipment to the new lessee. Approximately 14% sold their stock and equipment privately and nearly 4% reported that they still had stock and equipment that they were unable to dispose of.

About 63% of former operators reported the sale of their stock at its wholesale cost and the sale of their equipment at its book value. Almost 30% reported sales at below their cost or at less than their valuation for whatever was offered. Over 7% reported that they had not received payment for stock and equipment.

The former operators reported the amounts they realized from the sale of their stock and equipment on termination. The average realization was \$3,612.00, which on the average was \$2,303.00 below their total investment.

More than 70% of former operators considered they had lost money when attempting to realize on their stock and equipment after their termination. The estimates of their losses when averaged was \$2,853.00.

In the particular multiple termination station described in Table 89 the six operators lost an average of \$3,350.00 per operator in an elapsed period of five years.

We asked former operators the gallonage they sold during their first year of operation. Over 65% of former operators reported first year gallonage of less than 126,000 gallons, and over 80% of former operators reported first year gallonage of less than 170,000 gallons.

The former operators were asked to estimate their hourly earnings as a service station operator and compare it with their hourly earnings in their present employment. The average hourly earnings reported as a service station operator were 67¢ per hour and the average hourly rate in their current employment was \$2.60 per hour.

Over 82% of former operators indicated that dissatisfaction with their net income was the principal reason for termination.

Most former operators gave several reasons for termination, but a few were emphasized more than others. The largest single cause was that income was too low for the hours worked and this was mentioned in 68% of all terminations. Low income was stressed in other forms of reply such as "oil company rental increases reduced profit", "profit too low on commission consignment", "could not afford to hire help because of low income", etc.

Included in virtually every former operator's reply on reasons for termination were complaints about one or more of the oil company "ties" which restricted or hampered the operator in his attempts to earn a profit. These reasons included "no freedom to buy T.B.A. where he wanted to," "oil company pressure to extend hours", "oil company pressure to participate in gimmick advertising which reduced profits," "poor service from suppliers suggested by oil company and oil company pressure not to buy elsewhere", etc.

## **(9) Termination Case Histories**

Statistics on terminations, no matter how shocking, are inadequate to convey the true picture of what is happening in human terms.

Most terminations are business failures, with the accompanying disappointment, worry, and loss of savings.

The operator and his family face the tragic experience of acknowledging failure in a chosen method of making a living and starting over again in something new.

The Committee and its interviewers talked to large numbers of former operators to obtain information about their service station experience and the reason for their terminations.

The bare bones of termination statistics become more meaningful when embodied with the flesh and blood of real people who relate their problems and disappointments.

The case histories of two former operators are accordingly outlined in the words of one of our interviewers. One of these former operators had a city station and the other had a station in a smaller centre.

No single termination case history can be regarded as typical, because each termination involves a different person with a different background and circumstances.

The third illustration is an account of an English termination, which was published in "Auto Car Magazine" in the fall of 1967. We consider it to be relevant because it so faithfully reflects the experiences and the views of large numbers of service station operators and former service station operators in Alberta. It tends to confirm that the marketing practices of the handful of international oil companies which operate throughout the world create similar problems for the service station operator, no matter where he carries on his business.

The bitterness and complaints expressed by Alberta operators and former operators appears to be shared by English operators who have similar attitudes and voice similar complaints about the same oil company practices.

#### (a) "John X" Termination

##### THIS MAN IS BANKRUPT — WHERE DID HIS MONEY GO?

Four years ago "Mr. John X" was making a reasonable living, and owned a half section farm complete with livestock and machinery. Today, his liabilities exceed his assets by over \$1,000.00 and his future looks bleak. What happened?

One day in 1964 "John X", who farmed near an Alberta town, returned home with his family after spending the day in town, to find that he had lost his house and all the contents by fire. Bad luck seemed to stay with "John" and two weeks later his crop was destroyed by hail, and a short time later his infant child passed away.

As could easily be imagined "John" and his wife were badly discouraged and depressed. They talked things over and decided to leave the farm and try something else in order to make a living. "John" at this time was about 50 years of age, he had only a Grade 8 education and had had no real experience other than farming. He had worked for a few weeks in a garage about thirty years ago. He felt that there was a possibility of taking over a service station in the town and, with this in mind, went into town one day and told some of his friends of his plan. He was introduced to an oil company representative who happened to be in town and discussed the service station business with him.

This oil company representative told "John" of a vacant station his company had for lease in a neighboring town and invited him to go there and look things over. "John" accepted this invitation and the two of them proceeded to the neighboring town where he was shown the vacant station. He was impressed with both the station and the bright picture (painted for him by the oil company representative) of the kind of a life he and his family could have here. On inquiring what it would take to lease the station "John" was told that "if he had the money necessary to buy the gasoline in the storage tanks the station was his". He paid for the gasoline and started in business. Word was sent to "John's" wife asking her to bring the family to the neighboring town because he had already opened the doors for business.

As time passed "John" found that he was always short of money. His farm was sold and an auction sale disposed of his livestock and equipment. The money all disappeared and inside of four years "John" owed money to many people in town. His inventory was depleted. Some residents of town, through pity, sent "John" business, others would send him business in order to collect money owing to them. It had become a very grim situation for a man who was rated by those who knew him as being honest. "John's" days in the service station are numbered because he has no further funds to subsidize the station and his lease will, without doubt, be terminated. His only future then will be on welfare or as a labourer.

Now, what went wrong? Perhaps some of the loss was due to thefts by unreliable help. "John" was honest himself and felt that other people would be honest as well. More money was lost because he extended credit for the same reason. It would be an easy way out to place the full blame on "John" and call him a fool or a poor manager. But, would this be an honest or complete appraisal of the situation?

The oil company knew all the pitfalls in the service station business but they did not train this man. They knew he had little education and no acceptable experience as an operator but they leased him the station. He would not qualify as an employee of theirs to operate a station but the oil company encouraged him to invest his life's savings in a business in which his predecessor failed. They took his money, the only requisite to obtaining possession of the station, and watched his assets slip away. They



could have saved him a lot of hard work and a lot of money if they had never leased to him, or even if they had terminated his lease when they knew what was happening. "John" and his wife have worked for over four years and lost their lives' savings. In return for this time they have been paid about 35¢ per hour. They sold, for the oil company, about 260,000 gallons of gasoline. The oil company was paid in full for this gasoline as it was always shipped C.O.D. "John" not only paid for the gasoline, but he paid for part of the cost of keeping the station open to sell it.

Where did this man's money go? The oil company appears to have benefitted most as it earned a profit on the products sold, its brand name was kept before the public, and "John's" savings paid for the losses incurred in selling the products of the oil company.

## **(b) "John Doe" Termination**

### **EDUCATION IS EXPENSIVE**

A multi million dollar oil company provided an Alberta resident with an eight-week "education" in Service Station Management at a cost to him of \$2,500.00 plus two months wages.

When "John Doe" who resided in an Alberta city was about 55 years of age he decided that it was about time to look for an easier way of life. Ever since he had landed as an immigrant in Canada he had worked as a labourer. Now he found that this work was becoming too much for him. With this in mind he approached a friend of his who was a licensed mechanic and suggested that they go into the service station business. "Doe" was to put up the money necessary to start the business, and they would both work in the station as partners. "Doe's" son was to be apprenticed as a mechanic as well and "Doe" was most happy. He felt that this was a chance for his son to learn a trade and the son then would have a much easier life than "Doe" himself had had.

He came in contact with an oil company representative who suggested that they lease a station on a main artery leading into the City. This representative told them of the possibilities of high profits from gasoline sales and of the potential of the station. The lease was signed and a stock was bought from the oil company. The representative helped them pick the stock out and they started in business. The total investment of \$3,000.00 represented the life savings of "Mr. John Doe".

Within about six weeks these fellows knew that they had been misled and that they would have to take a loss and get out or face bankruptcy. The oil company was advised that the lease was to be terminated because there was no business. "Mr. John Doe" tried to sell the balance of his stock of tires, batteries and accessories back to the oil company but they refused, claiming that it was obsolete. This stock had been in the station only six weeks so it must have been obsolete when it had been purchased on the recommendation of the oil company representative. On termination the stock was taken to "Mr. Doe's" home and an attempt was made to peddle it. In all, about \$500.00 was realized and "Mr. Doe" feels that this is about all he can get.

In two months "John Doe", his partner who is a licensed mechanic, and his son received no wages and lost \$2,500.00. Why?

"John Doe" leased a service station from the oil company and the only necessary qualification for him as a lessee was a few dollars. The oil company knew this man had no education, no experience and no aptitude that would suit him for this business. They knew as well that the station had a record of failures and that even a well qualified man was unlikely to succeed here because of poor location, poor visibility, poor size and shape of the lot and poor facilities. In spite of this the oil company sold this man obsolete stock, gave him information which misled him and encouraged him to risk savings that had taken him a lifetime to accumulate.

This was a pretty expensive education for a man who could not afford it. The oil company continues to place other operators in the same location each of whom in turn contributes time and effort and loses money. The oil company whose brand name continues to be displayed and whose products continue to be sold, reaps the most apparent benefit from this depressing procedure.

## **(c) English Termination**

### **SO YOU THINK YOU WOULD LIKE TO BE TENANTS OF A SERVICE STATION?**

Have you read the oil companies ads for service station tenants, and thought of saving your pennies, and applying for such a tenancy?

Think again, I say, or if you must put your money into something, put it down the toilet and pull the chain. It will be a far less painful way of losing your money, and take up less precious time.

I speak from experience, for 11 years ago my husband and myself became tenants of a service station, and, today, are sadder, wiser, and infinitely poorer.

My husband had served an apprenticeship to the motor trade, and was ambitious to open a small garage. After our marriage we scraped and saved, forgoing holidays and the like, and eventually started in business, albeit in a very small way.

We paid our way and saved our profits, to enable us to buy an established business, and with £2,000 we started looking around. Alas, our money, which was enough for

a down payment, was not nearly sufficient. We needed as much again to stock a place out, and so we turned to the idea of being tenants.

We contacted a petrol company, and joined the queue of would-be tenants. Eventually on one proud and happy day we opened a brand new service station. Our hearts were full of gratitude to the petrol company for all the wonderful things they had promised to do for us, and with eyes full of stars we started what was to prove the most heart-breaking, luckless venture it could have been our fate to do. We would have been better with a hole in the head.

For six months we manned the place ourselves, my husband doing the servicing and repairs, and I selling the petrol.

Open 12 hours a day, seven days a week, in one of the wettest autumns and coldest winters on record, with chapped hands and chilblained feet we soldiered on. With the help of a woman one half day per week, I also ran the house and cared for my young son who, fortunately, was at school.

Our £2,000 was quickly swallowed up into stock. The weekly petrol bill was £600, oil, tyres, batteries, accessories and the odd second-hand car soon took care of the rest. The rent was on a sliding scale, £750 for the first year, rising to £975 in the third year. Rates, which started at £80 were soon re-assessed at £350 per year.

Gradually we built up the business and had to employ staff to cope. At the end of five years we had a full-time mechanic, a full-time petrol attendant, and assorted part-timers for evenings and week-ends. In addition my husband still worked seven days per week, and I worked part-time.

We did colossal business, and in one good year we netted £3,000 in our used car sales alone, but still the overheads beat us. Electricity, telephone, staff wages all increased with every year, until our net profits were nil, and after eight years of sweat and toil we started to actually lose money.

The petrol company who had promised us lock-up garages for renting out, and a host of other improvements, did none of these things.

At a meeting with our auditor, he agreed that the whole thing was an uneconomical proposition, and so we decided to cry enough. We simply could not go on losing money.

We gave our notice and the petrol company promised to help us sell our stock to the incoming tenant. We had £1,500 stock in trade and were to settle for £700 which would pay our outstanding bills. My husband had already obtained a post as garage supervisor with a local authority, and we were ready once more to start from scratch. Once more the petrol company let us down; they told us that the incoming tenant would not need our stuff and told us to clear the place out. It was impossible to sell it in the short time we had left, and most of it was dumped on our lawn at home, where we sold what we could and the rest of it rotted away.

We paid as much as possible of our bills, and the rest agreed to wait, all except the petrol company, to whom we owed £200. They admitted verbally that we had been shabbily treated and even admitted that it was their fault we had not received valuation and so could not pay their bill, and then proceeded to sue us, threatening us with bankruptcy.

We borrowed from the bank and paid up but did not smile, nor have we smiled much since. It has been an upward climb, paying our mountain of debt, and trying to re-establish ourselves in what is practically middle age.

We now know our experience is not unique. All over the country, service station tenants are repeating our experience with variations, indeed one of the motoring trade papers made a survey of these situations and called it "Despairsville."

So if you should call at a company-owned petrol station and think how prosperous and busy it looks and you should consider leasing one, think again. There are many other ways of investing your money.

## **(10) "John" Didn't Know—But the Oil Company Did**

When "John" took over his service station he didn't know that he was the 6th operator to try to become established there within a period of 5 years, but the oil company did.

"John" didn't know the economics of service station operations or what profit he could reasonably expect from the volume of business that had been handled by the service station, but the oil company did.

"John" didn't know the overwhelming odds against his chances of success, but the oil company did. It was not so much a question of whether he would lose his investment, but rather how long it would be before his money ran out.

If the oil company had been hiring an operator to go on its payroll as an employee "John" would never have been hired. The oil company knew that he lacked the experience, education, training, and other qualifications that would hold some hope for his success.



However, as the oil company was neither paying "John's" salary nor putting up the money to start him in business, they encouraged him to try. The oil company took "John's" money, for its gasoline, for stock it provided to him, and for rent of the company's premises. It tied "John" with contracts which enabled the company to quickly and effectively terminate any interest "John" had in the premises or the business as soon as his money ran out, with a minimum of cost or inconvenience to the oil company.

Executives of one major marketer stated to the Committee that it had been the practice of their company "to provide a station to anybody that was warm and bondable" without regard for any lack of qualifications or possibility of success.

This is the kind of thing that is happening in a major portion of the 200 to 300 terminations per year which have taken place in Alberta during the years the Committee has studied the problem.

The Committee is of the opinion that the oil companies for their own advantage, are exploiting many of the persons who become service station operators, and the persons exploited have neither the knowledge nor the means to protect themselves.

The oil companies get paid for their gasoline and the merchandise they supply, their brand name is kept before the public, and their outlets are open at minimum cost to them, but the unfortunate operator loses the money he has invested and the weeks of time and effort he has put in for inadequate pay.

If the operator had been an oil company employee government laws prescribing hours of work and minimum wages would have insured that he got reasonable payment for his time and effort. If "John" were investing his life savings in securities, rather than in a service station business, he would have had the protection of a securities commission which would have investigated what was offered, required the vendor to disclose relevant facts, censored and approved the advertising of the vendor, and taken other steps to insure that the investment of the purchaser had some reasonable prospect of success.

But because the service station operator appears to be classified in the category of an "independent businessman" he is not protected like an employee although he contributes his labor in accordance with oil company direction and rules, and he is not protected like an investor although his life savings are risked and lost to the benefit of the oil company with which he deals. Because he is classified as an "independent businessman" he has no protection and he is free to enter into contracts with the oil company which deprive him of many of his customary rights, no matter how harsh or improvident these contracts may be from the point of view of the operator.

#### **(11) Recommendations re Lessee Turnover**

So long as the present system of tied outlets continues to exist, the problems of lessee turnover and loss of lessee investment could be reduced by legislation, similar to existing securities legislation, requiring disclosure of information for the protection of the prospective lessee and investor.

The oil companies record everything about a gallon of gasoline in the most minute detail. The companies constantly assess and review their technology, procedures, accounting, data processing, and information retrieval to study and improve the economics of producing, transporting, refining and marketing. Although they own service stations and exercise effective control over almost everything that happens in a service station, they regard the service station operator primarily as "an independent business man" who is a "purchaser" and consequently not part of their area of concern.

The oil companies have given the Committee the clear impression that they don't record many significant facts about service station operators who are their

lessees. Some companies were unable to reply to our questions about when lessees commenced to lease, or when they commenced to buy products, etc. When a former lessee terminates and a new lessee commences, the oil company is intimately involved. It has to approve the new tenant as a lessee, it considers whether he has sufficient funds for investment and operating capital, it helps arrange for the sale of equipment and inventory from the former lessee to the new lessee, and it intervenes to prevent the sale of "goodwill" but none of this information is recorded. They don't record the new lessee's initial investment and they have no information about his loss of investment on termination.

The oil companies left us with the impression that so far as the companies are concerned:—

- (a) operators are expendable;
- (b) the companies have little concern for the operator's economic or financial problems because he is "an independent business man" so they don't record, assess, know or consider his problems;
- (c) if the operator's problems are caused by oil company policies this is still not the oil company's concern because the operator is an "independent business man" who looks after himself;
- (d) the economic consideration to the oil company always overrides any human consideration.

These impressions are confirmed by the actions of oil companies in various circumstances.

If an oil company concludes that it would be advantageous to it if lessees of its service stations stayed open longer hours, then the oil company exerts pressure on operators to stay open longer hours even if this creates a loss for them.

The oil company undertakes special advertising promotions and requires its operators to bear a considerable portion of the expense thereby increasing their costs.

Some oil companies which stated to the Committee that they could not estimate the incomes of their service station operators reported that they based their rentals charged to operators on what they considered such operators should be earning.

One company arbitrarily converted successful lessees who were selling large gallonages to commission agents against their will and to their financial disadvantage.

Oil company policies of "directed buying" and "full-line forcing" clearly benefit the oil company but produce little apparent benefit to the public or to the operator.

The attitude of the companies in various circumstances is illustrated in Chapter 20 dealing with Enforcement of Contracts.

The existence of too many unnecessary service stations and high rates of lessee turnover and business failures among independents are conditions which facilitate control of retailing by the "cartel". Retailing is the level of the oil industry that normally would be the easiest for competition to enter. But competition is not attracted unless there is a prospect of profits. The "cartel" with its practical monopoly does not want competition. The "cartel" subsidiaries appear unconcerned about lessee turnover, and its obvious costs, and appear to be doing little to remedy the situation.

Our recommendations are that the oil companies be required to disclose specified information to prospective lessees. To do so they will have to record some information and become more aware of some problems of lessees which at present do not concern them.

If the conditions they have to disclose are bad, it may make it more difficult for a company to attract lessees. This may induce the oil companies to consider and

assess why the provision of factual information might discourage prospective lessees. The industry may thereby be encouraged to seek some solutions by considering the lessee's status and improving his freedoms and opportunities. There is ample room to improve training which would increase the chances of success for many operators. Fewer and larger stations would provide better business opportunities and more income for operators.

The prime purpose of the following recommendations is to provide essential information to prospective operators, but a fringe benefit may be to increase knowledge of and concern for the problems of operators.

Before an ordinary investment or security can be offered for sale to the public, the company proposing to sell the investment is required to submit its proposal to The Securities Commission which investigates the facts. The company is then required to prepare its offer in writing setting out the facts which the Securities Commission considers the investor should be aware of. Every potential investor must be given a copy of this written prospectus so that he is in possession of the information which The Securities Commission considers essential before his money is invested.

Four of the major oil companies operating in Alberta estimated that each of their lessees invests from \$4,000 to \$10,000 in his outlet. For many of these people this single investment represents the majority of their life savings. Such an investment must be regarded as a hazardous one, because the turnover rate of service stations is 20% per year. The rate of termination in Alberta in 1965 was only slightly less than one per day. Yet for this particular investment there is no requirement that the investor be given any information at all. The information provided is usually verbal, and some months later when the lessee realizes that his investment is being lost there is no means of checking with certainty whether the information he received was correct or incorrect, complete or incomplete, or accurate or misleading.

Many of the lessee investors are not experienced in this business and do not know what information to seek. Most of them should have more information before they invest.

The Committee accordingly recommends the enactment of legislation requiring disclosure of information.

(1) Prior to publication of any advertisement for lessees the oil company should be required to submit a copy of the text of the proposed advertisement to the licensing officer who in his discretion may refuse authorization to the oil company to proceed with publication until he is satisfied with the text of the advertisement. After obtaining the authorization, the oil company should remain solely responsible, that the statements it publishes, in any advertisement for lessees, are true and not misleading. (Chap. 8(2)).

(2) The oil company in any case where it controls the premises directly or indirectly, should be required to provide prospective investors in a service station business, whether as lessees, commission agents or otherwise, with a statement in writing entitled "Service Station Prospectus" containing the following particulars about that service station:

- (a) the name and address of the service station;
- (b) the name and last known address of each person who has acted as operator of the service station during the immediately preceding six years and the number of years or months that such person operated the station;
- (c) the status of each operator, whether lessee, employee, or commission agent, etc.;
- (d) the gasoline volume supplied by the oil company to that station in each calendar year during the six immediately preceding years;



- (e) the estimated volume of tires, batteries, accessories and other merchandise sold by the service station, during each year for the six immediately preceding years, which estimate may be based on the volume—
    - (i) supplied by the oil company to the service station; or
    - (ii) sold by suppliers with market access agreements from whom the operator was directed to purchase by the oil company; or
    - (iii) as estimated by the oil company based on probable sales ratios for that outlet;
  - (f) the dollar amount of rent received by the oil company from the operator of the station in each year for the six immediately preceding years;
  - (g) particulars of the capital investment recommended to the operator by the oil company, broken down to show the principal items for which it is required;
  - (h) a pro forma statement of income and expense for the service station, based on the oil company's estimates for the first twelve months of the prospective lessee's occupancy, showing in detail—
    - (i) the products to be sold and the estimated revenue from each; and
    - (ii) the items of expense and the estimated costs of each;
  - (i) the oil company's estimate of the personnel required to operate the service station based on its anticipated operating hours listing each employee required with his hours of work and a brief job description.
- (3) The oil company should be required to file a copy of the Service Station Prospectus with the licensing officer for service station lessees and to obtain his approval of the prospectus prior to approaching any prospective lessee and the oil company shall give a copy of the prospectus to each prospective lessee.
- (4) Each time a service station lease is terminated the oil company should be required to file with the licensing officer a "Lease Termination Report" in a form similar to those prepared by the oil companies for the Committee.
- (5) Each time a service station lease is terminated the retiring operator should be interviewed by an inspector of the licensing branch who shall submit a report in writing to the licensing officer relating to that termination. If lease terminations continue at the rate of slightly less than one per day, such reports could probably be handled by a single inspector.
- (6) The licensing officer should keep a separate file or record for each service station containing all information pertaining to that station, and the licensing and termination of its lessees.
- (7) Any prospective investor contemplating investment in a service station business which is available to lease may inspect the licensing officer's file containing the information relating to that station.
- (8) In the case of a service station where three operators have terminated within the immediately preceding six years, the oil company should not be allowed to offer it to another lessee, but the oil company may in its discretion operate the station by employees or close the station, or make such other disposition of the station as it sees fit. In such a case if one or more of the three terminations was due to the death of the dealer, the illness of the dealer, the retirement of the dealer, or other appropriate circumstances, the licensing officer in his discretion may authorize the oil company to offer the station for leasing.

The Committee is of the opinion that the implementation of the above recommendations would lead to a substantial reduction in the rate of lessee turnover and the resulting loss and hardship to the people who operate service stations.

These recommendations may encourage closure of unsuccessful stations for which lessees can't be obtained, or may result in their operation by employees of the oil company which owns it and whose products are being sold.

A lessee about to risk investing his capital will have information similar to that which other investors get, and realistic estimates of profits rather than generalizations and glowing assurances.



## CHAPTER 25. TOO MANY SERVICE STATIONS

### 1. Too Many Service Stations—Other Jurisdictions

A considerable body of informed opinion appears to be convinced that there are too many service stations.

Service station operators, all of whom are actively engaged in this business, are virtually unanimous that there are at least two to four times as many stations as required.

Oil industry publications contain editorials and articles by various authors dealing with "sick stations" and problems created by too many service stations.

Governments of various countries have been sufficiently convinced of the existence of too many service stations in their countries to take action to limit their numbers. In the 1967 issue of the National Petroleum News Fact Book at pages 101 and 102 some of these limitations are referred to. In the United Kingdom strict curbs against new service stations are being enforced. In France the service station population remained at the 45,000 figure, with the government allowing no additions, despite a 7.5% annual volume growth. In Italy the government continues to restrict station building except in main towns and on highways. The outlook is for continued government restraint on service station building.

The Monopolies Commission of the United Kingdom after an extended study stated in its report at paragraph 414

"Thus, in our view, the practice on the part of petrol suppliers of acquiring retail petrol premises may be expected to operate against the public interest unless some limit is imposed".

In the province of British Columbia, after a three year study, the Royal Commission on gasoline price structure reached the conclusion, stated on page 47 that

"British Columbia is serviced with considerably more gasoline outlets than is actually required by the motorist at this date and this results in an excess quantity of resources being employed in the distribution of gasoline."

"The oil companies have invested considerable sums of money, not only in lessee operated service stations, but also in advances to independents. Bearing in mind the low average gasoline sales of many of the lessee dealers and of the independents financed by oil companies, my view is that there is over-investment in retailing facilities."

At page 48 the Commissioner stated:

"I recommend that a 'rest' be taken for a period of at least five years in the construction of additional service stations; the licensing authorities in British Columbia would appear to have the power at present to carry out this recommendation."

At page 49 he stated:

"I believe the subsidization of lessee-operated outlets is against the public interest and constitutes an unfair practice at the wholesale level; it should come to an end."

Oil industry publications recognize the existence of problems arising in connection with excess numbers of service stations, as indicated by the following quotations.

In the National Petroleum News of August 1964 the Assistant Editor Allan Sosenko wrote an article entitled "The Unseen Danger of Sick Stations". The following quotations are taken from that article.

"Dealers, who can cite the industry's sorry turnover record—around 27% annually since the American Petroleum Institute started keeping score in 1960. Marginal outlets seem to be both a cause and a symptom of dealer turnover—perhaps the marketing industry's No. 1 problem. (Responsibility for dealer turnover is a growing moral problem, drawing heavy criticism, much from outside)."

"Overbuilding, long a hot industry topic, is often cited as a basic cause of sick stations. The charge is most often made in metropolitan markets. One estimate is that Detroit could do well with one-third fewer stations than its 3,900-unit total. Chicago is 25% overbuilt, a local marketer says. 'Too many stations,' is the pure and simple cause of marginal outlets, a dealer spokesman thinks."

"Few companies adhere to strict gallonage lines, but all marketers know how low gallonage can get before a station falls into the marginal-outlet class. The cutoff point varies from company to company. A 20,000-gal.-a-month station is marginal for some in big-city markets. But a 20,000-gal. station can be a shining star for others.

A few companies have a flat policy of closing stations whose gallonage falls below a specified level. One, for example, will close all stations selling less than 7,500 gal. a month. Another closes all 'conventional' stations with less than 7,000 gal. monthly throughput.

If absolutes are avoided, most companies apply rule-of-thumb gallonage criteria that influence their marginal-outlet thinking. The range for minimum profitable operation, assuming proportional related business and no other deficiencies, is from 90,000 gal. to 120,000 gal. annually.

'If you'll just put the arithmetic to a 10,000 gal. a month station, you'll see it just isn't attractive for a capable dealer,' says a marketing VP. 'And if you can't keep a dealer in a station, it's not going to be profitable.'

A gallonage review is often the starting point for further inquiry into an outlet's economic state. Many companies have a policy of formally reviewing all outlets that fall below a predetermined gallonage level. Phillip's marketing management reviews all stations that drop below 10,000 gal. a month, requiring field salesmen to file written reports. Unless gallonage improves, or there are mitigating factors, most of these stations are closed. Others, like Cities Service and Mobil, review all stations pumping 100,000 gal. a year or less.

Two significant factors limit the application of gallonage criteria. First, for as many stations applicable under the 'rule', there are as many that don't qualify.

Acceptable gallonage in rural areas is usually substantially lower than in urban areas. A solid rural station could well qualify as a 'dog' in a metropolitan market. Phillips's 10,000 gal. minimum applies only to *big-city* stations. Elsewhere it considers 6,000 or 7,000 gal. a month often capable of supporting a dealer. Sunray DX holds to the 10,000 gal. metropolitan minimum, but has found profitable small-town outlets handling only 5,000 gal. a month.

Companies also recognize a difference between an absolute minimum gallonage figure and a desirable minimum. One company thinks of 100,000 a year as rock bottom, but 150,000 gal. as the desired minimum. This brings in other factors.

The station moving 100,000 gal. could be a money-maker if non-oil lines sell well. And the 150,000 gal. station could be the real marginal outlet, if business begins and ends with the world gasoline. At least one company says it has a number of borderline cases with volumes of about 250,000 gal.

Because of the many variables, gallonage analysis defies broad guidelines. But it stands as an important indicator—the first red light on the marginal-outlet road—and a key element in the overall profitability check."

In the same August 1964 issue of National Petroleum News, the editor Frank Breese wrote a special editorial excerpts from which read as follows:

"Marginal outlets . . . , were the oil industry's weakest line of defence — an open invitation to local state or federal regulation."

"To clean up the marginal station mess, more stringent standards must be adopted. More subpar stations must be liquidated. Others must be upgraded—in more imaginative, and ambitious ways. Still other solutions must be found. The existing approaches haven't done the complete job."

The Oil & Gas Journal in an article entitled "Why Do Service Stations Fail?" read in part as follows:

"The 30% mortality rate among service stations across the nation is one of the most acute and expensive problems facing oil industry marketers."

"These economic sore spots in the marketing section of the oil industry were discovered in an exhaustive study by Dr. Lloyd R. Saltzman of the University of Tulsa's marketing department and his 17-man class in market research."

"Saltzman observed that despite the great sales potential of products and services sold in service stations about 3 dealers out of every 10 will leave their stations each year."

"Often the same station has a turnover of two or more times a year while many stations have no turnover. 'Nevertheless the number of terminations is excessive,' the researchers reported. 'In each case the cost to the dealer and to the parent oil company is high and almost impossible to measure—when one considers the loss on the original investment, the loss during time that the station is closed, and cost of finding a new lessee and getting him started in the business properly.'"

"The Saltzman report showed that 90% of the terminees leased their stations from oil companies rather than owning them. Nearly 80% had at least one competitor within a block and about 32% had three or more competitors within a block.

Saltzman pointed out there's a growing complaint from dealers that far too many stations are being opened. He said that reports from the U.S. Department of Commerce indicate that the number of service stations in the U.S. has increased by about 50% during the past 8 years. About 40% of the stations surveyed by Saltzman had been open less than 5 years."

The problem of our Committee was to determine whether there were too many service stations in Alberta, devise some means of measuring the extent of excess capacity, if any, ascertain what problems over capacity creates and for whom, and to recommend solutions that appear practical.

## **(2) Too Many Service Stations—Views of Alberta Operators**

Every motorist has observed the boarded up service stations in Alberta communities and along Alberta's highways which are mute testimony of oil company policies of over-building.

Although it is obvious to most observers that there are too many service stations, there are frequently difficulties in measuring and proving the obvious.

Our first approach was to obtain the opinions of service station operators actually engaged in the business of gasoline retailing.

Our first pair of questions were intended to indicate whether service stations were operating below their physical capacity, and if so by how much. Question 39 of the service station questionnaire asked "What was the daily average gallonage you sold last year?" and question 40 asked: "What was the maximum number of gallons you have ever sold in one day?" The maximum actually sold may be well below the physical capacity of the station, but it does give an indication of whether more sales could physically be handled than the daily average.

510 operators replied and on the average the sales they made on their maximum day exceeded their daily average sales by  $3\frac{1}{4}$  times. The answers to these questions are summarized on Table 90.



Table 90.

## Maximum Gallonage Sold on One Day Compared with Average Daily Gallonage Sold

Sample Area	Number of Replies	Sales on Maximum Day Compared With Sales on Average Day, Ratio of Totals
Bassano .....	4	2.92
Bashaw .....	7	4.29
Black Diamond .....	3	2.40
Bow Island .....	6	4.90
Blairmore .....	13	3.18
Boyle .....	1	6.48
Castor .....	7	8.33
Consort .....	5	3.82
Cochrane .....	3	5.34
Camrose .....	9	5.00
Coronation .....	6	5.43
Calgary—McLeod Trail .....	25	2.79
—17 Avenue .....	12	2.42
—Northwest .....	22	2.38
—Downtown .....	5	2.10
—Elbow Drive .....	11	1.97
Derwent .....	2	3.70
Edson .....	13	4.24
Edmonton—Calgary Trail .....	24	4.21
—109 Street .....	15	3.04
—97 Street North .....	15	3.83
—Downtown .....	16	2.67
—Miscellaneous .....	2	3.27
Ellerslie .....	1	7.38
Falher .....	4	7.13
Forestburg .....	6	3.06
Grand Centre .....	8	4.31
Granum .....	3	3.70
Grande Prairie .....	15	3.09
Hinton .....	8	2.85
Hardisty .....	3	2.53
Lac La Biche .....	3	3.62
Lethbridge .....	21	3.31
Manning .....	5	4.81
McLennan .....	2	1.86
Mayerthorpe .....	2	3.46
Magrath .....	2	3.26
Medicine Hat .....	18	2.52
Nanton .....	7	3.13
Olds .....	4	1.82
Onoway .....	3	2.85
Oyen .....	2	2.67
Peace River .....	11	3.27
Picture Butte .....	2	2.09
Pincher Creek .....	9	5.36
Rocky Mountain House .....	11	3.28
Red Deer .....	19	2.36
Spirit River .....	3	2.62
Smith .....	3	5.99
Stettler .....	16	2.42
Sylvan Lake .....	8	5.67
Sundre .....	5	3.29
Taber .....	6	2.49
Three Hills .....	5	5.40
Turner Valley .....	2	2.98
Two Hills .....	6	4.18
Viking .....	6	3.17
Vulcan .....	5	3.59
Willingdon .....	2	6.28
Wainwright .....	12	3.09
Highway #1—Canmore, Gap Lake, Morley .....	7	5.50
Highway #2—Crossfield, Airdrie, Balzac .....	7	3.02
Highway #3—Coaldale, Cranford, Barnwell, Taber .....	4	2.23
Highway #16—Mannville, Vermillion, Minburn, Innisfree, Vegreville .....	8	3.14
Highway #34—Sturgeon Heights, Crooked Creek, Debolt, Bezanson, Grande Prairie .....	10	2.69
TOTAL REPLIES .....	510	
Average Ratio for Alberta .....		3.26
Average Ratio for Edmonton .....		3.43
Average Ratio for Calgary .....		2.46

Source: Service Station Questionnaires, Question 39 and 40.



Even in the case of the highest volume most efficient stations in Calgary and Edmonton the answers indicated they could handle twice as much gallonage as their daily average, as indicated by the following examples:

Table 91.  
Sales on Maximum Day compared with Sales on Average Day

	In Gallons 40/39	Ratio 40/39	Station Annual Gallonage
	3000/1310	2.3	435,000
	3000/1370	2.2	513,000
	4500/1650	2.7	583,000
	3000/1500	2.0	457,000
	3200/1521	2.1	524,000
	3536/1850	1.9	582,000
Total .....	20,236/9201		3,094,000
Weighted average .....		2.2	516,000

Source: Service Station Questionnaires, Questions 39 and 40.

Based on observations of service stations during their peak hours—

- (a) Gallonage in such peak hours is double the daily average,
- (b) 21% of employee time during the peak hours was spent waiting for gasoline sales,
- (c) less than 5 pumps in 10 were in use at any given time during the peak hours.

The Edmonton early closing by-law permits a limited number of stations to be opened on Sunday in rotation while requiring all other stations to be closed. This situation provides a factual comparison for each individual station between its normal daily gallonage, and the gallonage it is actually able to dispense when some of its competitors are closed.

Question 42 of the service station questionnaire asked:

“Do you have a day when you are open and some or all of your competitors are closed (e.g. Sunday rotation)?

(a) if yes—what is maximum gallonage you have sold on such a day?

(b) if no—what gallonage do you estimate you could sell on such a day?”

The answer to question 42(a) reflects actual experience, the answer to question 42(b) is an estimate, and in either case conclusions can be drawn by comparing the gallonage with the daily average gallonage obtained in answer to question 39.

142 service station operators with actual experience answered question 42(a) and 317 operators made estimates in answer to question 42(b). The answers of those with actual experience corresponded reasonably closely with the answers of those who were making estimates, who tended to be more conservative in their estimates than the results from actual experience.

For the province as a whole, the answers based on actual experience indicated that the average service station could serve  $3\frac{1}{3}$  times as many cars or customers as it serves on its daily average, while the estimates indicated  $2\frac{1}{2}$  times.

Table 92.

## Maximum Gallonage Sold on a Rotation Day compared with Average Daily Gallonge Sold

Sample Area	Number of Replies	Sales on Rotation Day Compared With Sales on Average Day, Ratio of Totals
Bashaw .....	2	4.44
Bow Island .....	4	3.22
Blairmore .....	1	1.76
Boyle .....	1	6.36
Castor .....	2	6.57
Consort .....	1	1.67
Cochrane .....	3	2.90
Camrose .....	9	5.00
Coronation .....	1	6.45
Edmonton—Calgary Trail .....	15	4.53
—109 Street .....	12	3.18
—97 Street North .....	13	4.18
—Downtown .....	9	2.88
—Miscellaneous .....	1	2.50
Falher .....	1	5.26
Grand Centre .....	3	1.84
Grande Prairie .....	8	2.26
Hardisty .....	3	1.37
Lethbridge .....	2	2.27
Manning .....	2	4.65
Mayerthorpe .....	1	2.23
Medicine Hat .....	2	1.51
Onoway .....	2	3.87
Peace River .....	6	3.05
Rocky Mountain House .....	2	1.92
Red Deer .....	1	2.57
Stettler .....	5	2.00
Sylvan Lake .....	7	2.47
Sundre .....	3	2.30
Three Hills .....	5	5.40
Viking .....	3	1.74
Wainwright .....	6	1.92
Highway #3—Coaldale, Cranford, Barnwell, Taber .....	1	2.65
Highway #16—Mannville, Vermilion, Minburn, Innisfree, Vegreville .....	1	2.50
Highway #34—Sturgeon Heights, Crooked Creek, Debolt, Bezanson, Grande Prairie .....	4	2.55
TOTAL REPLIES .....	142	
Average Ratio for Alberta .....		3.26
Average Ratio for Edmonton .....		3.66

Source: Service Station Questionnaires, Question 39 and 42(a).

Table 93.

## Operator's Estimate of Maximum Gallonage that could be Sold if a Rotation Day were available compared with Average Daily Gallonage Sold

Sample Area	Number of Replies	Operator's Estimate of Sales on Rotation Day Compared With Average Daily Gallonage, Ratio of Totals
Bashaw .....	5	6.30
Black Diamond .....	2	2.13
Bow Island .....	3	6.97
Blairmore .....	11	3.80
Boyle .....	1	2.34
Castor .....	5	9.35
Consort .....	4	4.94
Coronation .....	5	4.83
Calgary—McLeod Trail .....	19	1.83
—17 Avenue .....	9	2.94
—Northwest .....	20	1.56
—Downtown .....	5	1.14
—Elbow Drive .....	10	2.25
Derwent .....	1	6.06
Edson .....	14	3.10
Edmonton—Calgary Trail .....	7	2.14
—109 Street .....	3	1.78
—97 Street North .....	2	0.79
—Downtown .....	5	1.46
—Miscellaneous .....	2	7.26

Sample Area	Number of Replies	Operator's Estimate of Sales on Rotation Day Compared With Average Daily Gallonage, Ratio of Totals
Ellerslie .....	1	4.92
Falher .....	3	6.67
Forestburg .....	6	3.61
Grand Centre .....	5	3.58
Granum .....	2	1.39
Grande Prairie .....	7	3.03
Hinton .....	8	2.35
Lac La Biche .....	3	1.62
Lavoy .....	1	12.50
Lethbridge .....	17	3.55
Manning .....	3	3.85
McLennan .....	2	2.20
Mayerthorpe .....	3	2.47
Magrath .....	2	3.86
Medicine Hat .....	17	2.80
Nanton .....	5	5.27
Peace River .....	5	3.15
Picture Butte .....	1	1.90
Pincher Creek .....	8	4.71
Rocky Mountain House .....	9	1.86
Red Deer .....	16	1.69
Spirit River .....	3	2.56
Smith .....	2	5.72
Stettler .....	11	3.14
Sylvan Lake .....	1	3.08
Sundre .....	2	10.27
Taber .....	6	2.39
Turner Valley .....	2	1.14
Viking .....	3	4.67
Vulcan .....	5	4.43
Wainwright .....	6	1.22
Highway #1—Canmore, Gap Lake, Morley .....	2	4.15
Highway #2—Crossfield, Airdrie, Balzac .....	3	4.73
Highway #3—Coaldale, Cranford, Barnwell, Taber .....	2	3.11
Highway #16—Mannville, Vermilion, Minburn, Innisfree, Vegreville .....	7	2.91
Highway #34—Sturgeon Heights, Crooked Creek, Debolt, Bezanson, Grande Prairie .....	5	2.44
TOTAL REPLIES .....	317	
Average Ratio for Alberta .....		2.59
Average Ratio for Edmonton .....		1.83
Average Ratio for Calgary .....		1.88

Source: Service Station Questionnaires, Question 39 and 42(b).

Question 43 of the service station questionnaire read as follows:

- "43. If some competitors in your area were closed making more customers with the same buying habits available to your station, estimate the maximum gallonage per day your station could handle without reducing the existing quality of service to customers—
- with no changes in staff, hours worked, hours open, or physical facilities .....
  - by increasing staff, adding pumps, and improving facilities and service to such extent as is reasonably possible having regard to all circumstances including the laws of your locality ....."

The answer to question 43(a) is each operator's estimate of the additional business his station could handle without reducing quality of service to customers and with no changes in staff, hours or facilities.

470 operators replied and were practically unanimous in indicating they could handle additional business.

Throughout the province, the average station indicated it could handle 2½ times as much business as it now handles without reducing quality of service and with no changes in staff hours or facilities. The answers are shown in Table 94.

Table 94.

Operator's Estimate of Maximum Daily Gallonage that could be Sold without changes in Staff and Facilities compared with Average Daily Gallonage Sold

Sample Area	Number of Replis	Operator's Estimate of Sales Without Changes in Staff and Facilities Compared With Average Daily Gallonage, Ratio of Totals
Bassano .....	3	1.30
Bashaw .....	7	4.78
Black Diamond .....	3	2.97
Bow Island .....	6	5.14
Blairmore .....	11	3.53
Boyle .....	2	7.98
Castor .....	7	3.85
Consort .....	5	2.30
Cochrane .....	3	2.67
Camrose .....	9	4.84
Coronation .....	6	2.88
Calgary—McLeod Trail .....	24	1.88
—17 Avenue .....	12	3.25
—Northwest .....	22	2.11
—Downtown .....	4	1.64
—Elbow Drive .....	11	1.78
—Miscellaneous .....	1	1.02
Derwent .....	2	3.84
Edson .....	14	2.63
Edmonton—Calgary Trail .....	23	2.79
—109 Street .....	14	1.90
—97 Street North .....	15	1.99
—Downtown .....	14	1.99
—Miscellaneous .....	3	1.61
Ellerslie .....	1	4.92
Falher .....	4	2.67
Forestburg .....	6	5.73
Grand Centre .....	8	2.70
Granum .....	2	13.87
Grande Prairie .....	15	2.26
Hinton .....	9	2.10
Hardisty .....	3	2.53
Lac La Biche .....	3	2.27
Lavoy .....	1	12.50
Lethbridge .....	19	2.18
Manning .....	5	3.54
McLennan .....	2	4.39
Mayerthorpe .....	4	3.20
Magrath .....	1	1.99
Medicine Hat .....	18	2.44
Nanton .....	7	4.49
Olds .....	1	2.50
Onoway .....	3	4.98
Peace River .....	11	2.17
Picture Butte .....	1	2.37
Pincher Creek .....	9	5.10
Rocky Mountain House .....	11	2.45
Red Deer .....	18	2.75
Spirit River .....	3	2.32
Smith .....	3	4.01
Stettler .....	16	2.20
Sylvan Lake .....	8	3.71
Sundre .....	5	5.00
Taber .....	6	2.23
Three Hills .....	5	4.78
Turner Valley .....	2	1.75
Two Hills .....	6	2.75
Viking .....	6	3.69
Vulcan .....	5	5.26
Willingdon .....	2	5.14
Wainwright .....	12	1.84
Highway #1—Canmore, Gap Lake, Morley .....	3	1.75
Highway #2—Crossfield, Aldrie, Balzac .....	3	1.75
Highway #3—Coaldale, Cranford, Barnwell, Taber .....	2	3.59
Highway #16—Mannville, Vermilion, Minburn, Innisfree, Vegreville .....	10	2.59
Highway #34—Sturgeon Heights, Crooked Creek, Debolt, Bezanson, Grande Prairie .....	10	2.05
TOTAL REPLIES .....	470	
Average Ratio for Alberta .....		2.51
Average Ratio for Edmonton .....		2.16
Average Ratio for Calgary .....		2.08

Source: Service Station Questionnaires, Question 39 and 43(a).



The answer to service station questionnaire 43(b) compares the gallonage each service station operator considers he could sell through his station by increasing staff, adding pumps, and improving facilities.

432 operators replied. Throughout the province it appears that the average station considers it could handle more than four times its present average daily volume by making reasonable changes in his staff and facilities. Particulars of these replies are detailed in Table 95.

Table 95.  
Operator's Estimate of Maximum Daily Gallonage that could be Sold with changes in Staff  
and Facilities compared with Average Daily Gallonage Sold

Sample Area	Number of Replies	Operator's Estimate of Sales With Changes in Staff and Facilities Compared With Average Daily Gallonage, Ratio of Totals
Bassano .....	3	1.33
Bashaw .....	7	8.22
Black Diamond .....	3	2.97
Bow Island .....	5	8.77
Castor .....	7	6.36
Consort .....	5	2.93
Cochrane .....	2	2.86
Camrose .....	9	9.76
Coronation .....	6	3.97
Calgary—McLeod Trail .....	24	3.50
—17 Avenue .....	11	5.40
—Northwest .....	21	3.99
—Downtown .....	3	1.50
—Elbow Drive .....	10	2.46
—Miscellaneous .....	1	1.02
Edson .....	14	5.60
Edmonton—Calgary Trail .....	22	6.17
—109 Street .....	10	2.93
—97 Street North .....	15	5.62
—Downtown .....	9	3.03
—Miscellaneous .....	3	2.77
Ellerslie .....	1	7.38
Falher .....	4	7.21
Forestburg .....	6	9.94
Grand Centre .....	8	3.99
Granum .....	2	13.87
Grande Prairie .....	13	3.94
Hinton .....	9	3.34
Hardisty .....	3	6.85
Lac La Biche .....	3	2.81
Lethbridge .....	18	3.89
Manning .....	5	5.77
McLennan .....	2	4.90
Mayerthorpe .....	4	4.48
Magrath .....	1	2.39
Medicine Hat .....	9	3.16
Nanton .....	5	7.76
Olds .....	1	2.50
Onoway .....	1	5.33
Peace River .....	11	4.51
Picture Butte .....	1	4.75
Pincher Creek .....	9	6.88
Rocky Mountain House .....	11	3.40
Red Deer .....	18	6.76
Spirit River .....	3	2.75
Smith .....	2	4.08
Stettler .....	16	4.33
Sylvan Lake .....	8	5.92
Sundre .....	5	5.82
Taber .....	4	4.28
Three Hills .....	5	5.34
Turner Valley .....	2	1.75
Two Hills .....	4	4.80
Viking .....	6	4.86
Vulcan .....	5	6.49
Willington .....	1	3.10
Wainwright .....	11	2.97

Sample Area	Number of Replies	Operator's Estimate of Sales With Changes in Staff and Facilities Compared With Average Daily Gallonage, Ratio of Totals
Highway #1—Canmore, Gap Lake, Morley .....	3	5.32
Highway #2—Crossfield, Airdrie, Balzac .....	2	2.36
Highway #3—Coaldale, Cranford, Barnwell, Taber .....	2	7.18
Highway #16—Mannville, Vermilion, Minburn, Innisfree, Vegreville .....	8	4.42
Highway #34—Sturgeon Heights, Crooked Creek, Debolt, Bezanson, Grande Prairie .....	10	3.30
TOTAL REPLIES .....	432	
Average Ratio for Alberta .....		4.46
Average Ratio for Edmonton .....		4.00
Average Ratio for Calgary .....		3.66

Source: Service Station Questionnaires, Question 39 and 43(b).

In the service station questionnaire Question 44 and 46 read as follows:

“44. On the average, how many customers per day do you serve with gasoline?”

“46. Estimate the maximum number of customers you could handle with no changes in staff, hours worked, hours open, or physical facilities.”

536 operators replied to this question. Throughout the province it would appear that the average service station considers it could serve  $2\frac{1}{3}$  times as many customers as its daily average with no changes in staff, hours or facilities. Particulars of these answers are shown in detail in Table 96.

Table 96.

Operator's Estimate of Maximum Daily Number of Customers he could handle without changes in Staff and Facilities compared with Daily Average Number of Customers

Sample Area	Number of Replies	Operator's Estimate of Maximum Daily Number of Customers He Could Handle Without Changes in Staff or Facilities Compared With Daily Average Number of Customers, Ratio of Totals
Acme .....	1	5.71
Bassano .....	4	1.80
Bashaw .....	7	4.64
Black Diamond .....	3	2.36
Bow Island .....	7	2.97
Blairmore .....	13	2.77
Boyle .....	2	6.22
Castor .....	7	2.70
Consort .....	5	2.22
Cochrane .....	3	3.30
Camrose .....	9	3.68
Coronation .....	6	2.40
Calgary—McLeod Trail .....	27	2.06
—17 Avenue .....	12	2.13
—Northwest .....	23	1.91
—Downtown .....	8	2.26
—Elbow Drive .....	11	1.62
Derwent .....	3	3.86
Edson .....	16	3.38
Edmonton—Calgary Trail .....	22	1.83
—109 Street .....	16	1.57
—97 Street North .....	15	1.81
—Downtown .....	13	2.81
—Miscellaneous .....	3	1.79
Ellerslie .....	1	4.90
Falher .....	4	2.62
Forestburg .....	6	4.89
Grand Centre .....	8	2.64
Granum .....	3	11.00
Grande Prairie .....	15	2.09
Hinton .....	9	2.05
Hardisty .....	3	2.81
Lac La Biche .....	5	2.48

Sample Area	Number of Replies	Operator's Estimate of Maximum Daily Number of Customers He Could Handle Without Changes in Staff or Facilities Compared With Daily Average Number of Customers, Ratio of Totals
Lavoy .....	1	9.09
Lethbridge .....	22	2.01
Manning .....	5	1.97
McLennan .....	2	4.41
Mayerthorpe .....	4	1.84
Magrath .....	3	2.13
Medicine Hat .....	19	1.90
Nanton .....	7	4.04
Olds .....	4	3.36
Onoway .....	4	3.75
Oyen .....	4	3.21
Peace River .....	11	1.94
Picture Butte .....	1	2.33
Pincher Creek .....	9	4.12
Rocky Mountain House .....	11	2.35
Red Deer .....	17	2.30
Spirit River .....	3	3.78
Smith .....	3	3.77
Stettler .....	16	2.17
Sylvan Lake .....	8	2.43
Sundre .....	5	4.18
Taber .....	6	2.40
Three Hills .....	5	4.15
Turner Valley .....	2	2.81
Two Hills .....	6	2.69
Viking .....	6	3.77
Vulcan .....	5	5.34
Willington .....	4	6.91
Wainwright .....	12	2.47
Highway #1—Canmore, Gap Lake, Morley .....	7	2.30
Highway #2—Crossfield, Airdrie, Balzac .....	10	2.72
Highway #3—Coaldale, Cranford, Barnwell, Taber .....	4	3.75
Highway #16—Mannville, Vermilion, Minburn, Innisfree, Vegreville .....	10	2.00
Highway #34—Sturgeon Heights, Crooked Creek, Debolt, Bezanson, Grande Prairie .....	10	2.48
TOTAL REPLIES .....	536	
Average Ratio for Alberta .....		2.34
Average Ratio for Edmonton .....		2.00
Average Ratio for Calgary .....		1.96

Source: Service Station Questionnaires, Question 44 and 46.

Question 48 of the service station questionnaire read as follows:

"48. Could fewer stations handle the gas and services required by the public in the area in which you compete?"

Yes No

480 operators answered this question, and they were unanimous that fewer stations could serve the requirements of their respective areas.

Referring to stations with which the operator was in direct competition Question 49 then asked:

"49. Estimate how many of these stations could close without reducing the quality of service available to individual customers."

The 482 operators who replied estimated that on the average nearly 50% of their direct competitors could close without reducing the quality of customer service, as indicated on Table 97.

The conclusions from interviewing service station operators appear to be

- they are practically unanimous in their opinion that there are too many service stations; and
- they consider there are from two to four times as many stations in Alberta as are required.

Table 97.

**Percent of Competitors who could be Eliminated Without Reducing the Quality  
of the Present Service**

Sample Area	Number of Replies	Percent to Be Eliminated
Bassano .....	4	50%
Bashaw .....	7	62%
Bow Island .....	7	38%
Blairmore .....	14	42%
Boyle .....	1	75%
Castor .....	7	52%
Consort .....	5	65%
Cochrane .....	3	100%
Camrose .....	9	32%
Coronation .....	6	50%
Calgary—McLeod Trail .....	23	47%
—17 Avenue .....	10	42%
—Northwest .....	22	50%
—Downtown .....	5	45%
—Elbow Drive .....	9	36%
Derwent .....	2	50%
Edson .....	14	44%
Edmonton—Calgary Trail .....	15	76%
—109 Street .....	8	42%
—97 Street North .....	13	49%
—Downtown .....	11	42%
—Miscellaneous .....	2	48%
Ellerslie .....	1	40%
Falher .....	4	45%
Forestburg .....	6	57%
Grand Centre .....	8	54%
Granum .....	3	83%
Grande Prairie .....	15	28%
Hinton .....	9	40%
Hardisty .....	2	75%
Lac La Biche .....	4	56%
Lethbridge .....	22	41%
Manning .....	5	43%
McLennan .....	2	100%
Mayerthorpe .....	4	25%
Magrath .....	4	60%
Medicine Hat .....	20	47%
Nanton .....	7	44%
Olds .....	5	47%
Onoway .....	4	73%
Oyen .....	3	79%
Peace River .....	9	39%
Picture Butte .....	1	100%
Pincher Creek .....	9	51%
Rocky Mountain House .....	10	46%
Red Deer .....	16	42%
Spirit River .....	3	67%
Smith .....	3	80%
Stettler .....	16	47%
Sylvan Lake .....	8	57%
Sundre .....	5	42%
Taber .....	4	52%
Three Hills .....	5	55%
Turner Valley .....	2	63%
Two Hills .....	5	58%
Viking .....	5	57%
Vulcan .....	5	50%
Willingdon .....	4	47%
Wainwright .....	12	49%
Highway #1—Canmore, Gap Lake, Morley .....	6	45%
Highway #2—Crossfield, Aldrie, Balzac .....	6	59%
Highway #3—Coaldale, Cranford, Barnwell, Taber .....	3	50%
Highway #16—Mannville, Vermillion, Minburn, Innisfree, Vegreville .....	9	64%
Highway #34—Sturgeon Heights, Crooked Creek, Debolt, Bezanson, Grande Prairie .....	10	47%
TOTAL REPLIES .....	482	
Average Percent for Alberta .....		46%
Average Percent for Edmonton .....		53%
Average Percent for Calgary .....		48%

Source: Service Station Questionnaires, Question 47 and 49.



Table 98.  
Over Capacity Ratios, 1965

Comparison of Question Numbers		Edmonton	Calgary	Alberta	
40	/39	Maximum gallonage sold on one day compared with average daily gallonage sold -----	3.43	2.46	3.26
42(a)	/39	Maximum gallonage sold on a rotation day compared with average daily gallonage sold ----	3.66	—	3.26
42(b)	/39	Operator's estimate of maximum gallonage that could be sold if rotation day were available compared with average daily gallonage sold -----	1.83	1.88	2.59
43(a)	/39	Operator's estimate of maximum daily gallonage that could be sold without changes in staff or facilities compared with average daily gallonage sold -----	2.16	2.08	2.51
43(b)	/39	Operator's estimate of maximum daily gallonage that could be sold with changes in staff and facilities compared with average daily gallonage sold -----	4.00	3.66	4.46
46	/44	Operator's estimate of maximum daily number of customers he could handle without changes in staff or facilities compared with daily average number of customers -----	2.00	1.96	2.34

Source: Service Station Questionnaire.

Service station operators are not alone in believing there are too many service stations.

One major oil company took members of the Committee on a tour of some of its Calgary service stations. They pointed out two stations which had just been closed, four more which were slated for closure during the current year, and outlined a plan involving further closures.

Another major oil company indicated a section of Calgary where they had seven stations. Only one of these stations had an adequate volume and the remaining six suffered varying degrees of sickness. The company had built two stations in this particular area as recently as 1961. Its plan was to close two stations immediately and two more within a designated time leaving three still functioning out of seven.

One company had seven outlets in the downtown area of a city in Alberta. Its marketing officials indicated they thought two were adequate to serve this area. One is to be closed immediately, a second is scheduled for closure, and the company will sell gasoline to the remaining four as long as the operators choose to remain in business at those locations.

One company pointed out to the Committee a station on which it had just done an extensive rebuilding job. This station was slated for closure within five years and the expense of the renovations were to be written off within this period.

In Edmonton, the City Council was concerned about unsightly boarded up or vacant service stations and ordered its planning department to do a study of possible "utilization of derelict service station sites". The study completed in the summer of 1968 reported that seven oil companies had closed 33 stations in Edmonton in the past 5 years and estimated that 2 dozen more would close down in the next 5 years. The above figures did not include 19 retail outlets (mostly privately owned) which had also ceased selling gasoline in the same period.

(3) Too Many Service Stations — Gallonage Measurement

There are numerous variables which affect the gallonage of a “service station”. These include such things as the number of hoses and pumps, the hours and days of opening, the buying habits of the motorists who patronize it, traffic flows, conditions of access, etc. However, we consider it would be useful to obtain from the oil companies their views on the minimum gallonage that would justify investment in a minimum size service station. We asked the oil companies question 28 which reads as follows:

“What is the minimum potential gasoline volume for which your company would consider building a standard service station with two pumps and two bays?”

Some of the answers to this question are tabulated in Table 99. It is to be noted in the case of each company that between 80% to 95% of its outlets sell less than the stated minimum gallonage. By weighted averages, 96% of owned outlets, and 78% of leased outlets sell less than the minimum stated by their respective oil companies.

If there are too many stations to share the total available gasoline volume, the volume per station is too small to be economic.

Table 99.  
Percent of Retail Outlets Above and Below Oil Company Gallonage for Building  
a New Station — Alberta, 1965

Oil Company Statement of Minimum Gallonage for which Station Would be Built			Existing Retail Outlets Percent Below Stated Gallonage	Percent Above Stated Gallonage
All Outlets				
Company A	-----	125,000	92%	8%
B	-----	150,000	83%	17%
C	-----	150,000	88%	12%
D	-----	160,000	88%	12%
E	-----	192,000	88%	12%
F	-----	200,000	92%	8%
		Weighted Average -----	88%	12%
Leased Outlets				
Company A	-----	125,000	90%	10%
B	-----	150,000	73%	27%
C	-----	150,000	78%	22%
D	-----	160,000	88%	12%
E	-----	192,000	88%	12%
F	-----	200,000	78%	22%
		Weighted Average -----	78%	22%
Owned Outlets				
Company A	-----	125,000	94%	6%
B	-----	150,000	97%	3%
C	-----	150,000	95%	5%
D	-----	160,000	0%	0%
E	-----	192,000	83%	17%
F	-----	200,000	98%	2%
		Weighted Average -----	96%	4%

Source: Questionnaire 7, Question 28.  
Service Station History Cards.

## Maximum Gallonage of 2 Pump Station

Question 29, which we asked the oil companies, read as follows:

“What is the maximum volume that a busy, efficiently run service station, with two pumps and two bays could reasonably handle in the opinion of your company, without increasing its physical facilities?”

The answers to this question are tabulated in Table 100. These answers indicate that 100,000 gallons per pump is reasonably possible in the opinion of most oil companies.

Table 100.

Maximum Gasoline Volume That Two Pump, Two Bay Station Can Handle Per Year

	Gallonage	
	12 Hour Station	24 Hour Station
Imperial .....		Not Answered
B.A. ....	175,000	225,000
Royalite .....	200,000	250,000
Shell .....	200,000	400,000
Texaco .....	200,000	310,000
Standard .....	180,000	350,000
Federated .....	250,000	300,000
Pacific .....	216,000	300,000
Husky .....	150,000	275,000
U.F.A. ....	250,000	325,000
Mohawk .....	180,000	300,000

Source: Questionnaire 7, Question 29.

## Gallonge Per Hose, High Volume Stations

In 26 high volume stations in Edmonton and Calgary, the Committee divided the gallonge actually sold by the station by the number of hoses in use at the station to obtain a gallonge per hose figure. The average gallonge per hose was 117,000 gallons per year, as shown on Table 101. This figure is not an estimate but is an average of actual performance averaged for these 26 stations. If the available gasoline did not have to be shared by too many outlets, more stations would have their pumps operating in the range of 100,000 gallons per pump.

Assuming every station has a minimum of two pumps, the minimum outlet has the capacity to serve 200,000 gallons per year. 73% of the leased outlets in Edmonton and 84% of the owned outlets in Edmonton sell less than 200,000 gallons per year. 70% of the leased outlets in Calgary and 85% of the owned outlets in Calgary sell less than 200,000 gallons per year.

100,000 gallons per year appears to be less than half the physical capacity of a minimum outlet. 36% of leased outlets and 52% of owned outlets in Edmonton sell less than 100,000 gallons per year. 27% of leased outlets and 62% of owned outlets in Calgary sell less than 100,000 gallons per year.

If there weren't too many outlets there wouldn't be such a large number operating at less than half their practical operating capacity.

Table 101.  
Gallonge Per Hose — High Volume Stations — Alberta, 1965

	Station Annual Gallonge	Number of Hoses	Gallons Per Hose
Edmonton:			
	405,000	4	101,250
	427,000	4	106,750
	457,000	4	114,250
	482,000	10	48,200
	524,000	4	131,000
	578,000	4	144,500
	582,000	4	145,500
	583,000	6	97,167
	610,000	4	152,500
	616,000	4	154,000
	639,000	4	159,750
	763,000	4	190,750
	582,000	8	72,750
	489,000	6	81,500
	624,000	6	104,000
	504,000	4	126,000
Calgary:			
	435,000	4	108,750
	480,000	2	240,000
	481,000	4	120,250
	509,000	4	127,250
	550,000	2	275,000
	513,000	4	128,250
	435,000	5	87,000
	730,000	5	146,000
	401,000	4	100,250
	410,000	4	102,500
TOTAL	13,800,000	118	
Average	531,115	4.5	117,000

Source: Gasoline Marketing Enquiry Records.



### **Gallonge Per Pump**

A volume of 100,000 gallons per pump per year is reasonably attainable from a physical capacity standpoint.

There are a number of two pump stations whose annual gallonge in fact exceeds 200,000 gallons. There are a number of four pump stations whose annual gallonge in fact exceeds 400,000 gallons. This is illustrated in Chart 54.

A measure of service station over capacity in a community accordingly would be to divide the total annual gallonge sold in the community by 100,000 which would produce a reasonable estimate of the number of pumps required in the community. If the actual number of pumps exceeds the number produced by this calculation, the excess is a measure of the over capacity.

### **Gallonge Per Outlet**

In Calgary along 17th Avenue S.W. from 24th Street to 40th Street there are now 14 stations. The average gallonge per station is 121,000 gallons which is inadequate to give their operators a reasonable income. The gallonge sold by these 14 stations could easily be handled by 5 stations, each selling an average of 338,000 gallons. We inspected urban 4 pump stations whose annual gallonge exceeded 400,000 gallons which didn't appear unduly busy and whose customers were receiving excellent service.

In Edmonton along that portion of 109 Street which lies south of the river, 10 stations each selling an average of 386,000 gallons could handle the gasoline that is now divided between 16 stations.

In Peace River four stations, each selling an average of 369,000 gallons per year could handle the total gasoline requirements of that community which is now served by 13 stations.

In Rocky Mountain House three stations each selling an average of 326,000 gallons per year could easily meet the gasoline requirements of that community which is now served with 11 stations.

In Stettler 5 stations each selling an average gallonge of 312,000 gallons could supply the total gasoline volume that is now divided between 16 stations.

A four pump station selling approximately 400,000 gallons per year can provide good service to its customers, can obtain some of the benefits of economies of scale as the costs per gallon of capital and labor are less, and the operator has a better chance of making a reasonable living.

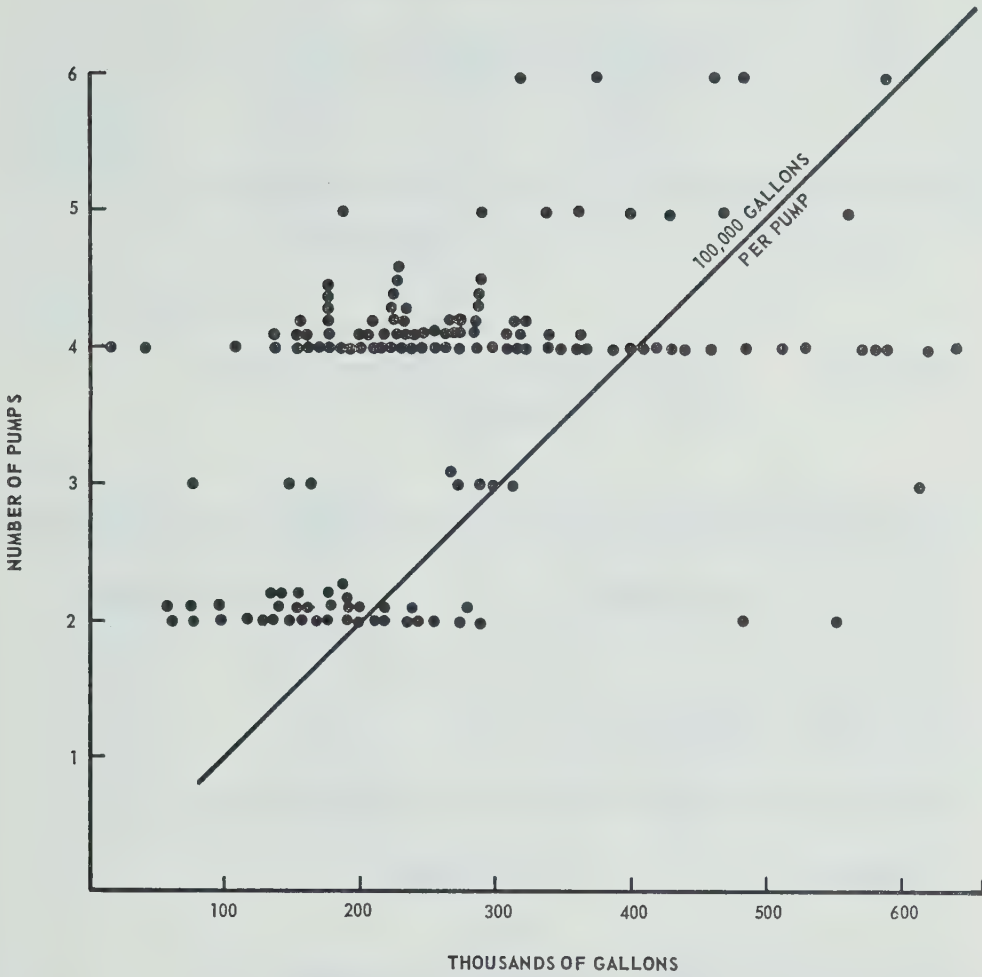
### **Gallonge Ranges of Service Stations**

100,000 gallons per pump appears to be a reasonable objective for annual sales. If there were fewer stations, more stations would attain or exceed the objective of 100,000 gallons per pump.

Tables 102, 103 and 104 show the gallonge ranges of service stations in Edmonton, Calgary and Alberta respectively.

The average gallonge per station in Edmonton is 158,103 gallons and the average gallonge range per station in Calgary is 156,353 gallons. In both of these cities there are many outlets with four or more pumps.

# COMPARISON OF ANNUAL GALLONAGE WITH NUMBER OF PUMPS



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

# REDUCTION IN RETAIL OUTLETS

REMAINING STATIONS TO HAVE ANNUAL SALES OF  
APPROXIMATELY 400,000 GALLONS

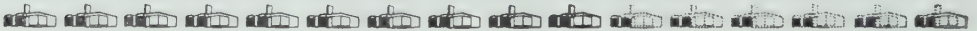
**CALGARY**      17 AVENUE S.W. FROM 24 STREET TO 40 STREET  
PRESENTLY 14 OUTLETS



**5 REQUIRED**

**9 NOT REQUIRED**

**EDMONTON**      109 STREET FROM 88 AVENUE TO 54 AVENUE  
PRESENTLY 16 OUTLETS



**10 REQUIRED**

**6 NOT REQUIRED**

**PEACE RIVER**      PRESENTLY 13 OUTLETS



**4 REQUIRED**

**9 NOT REQUIRED**

**ROCKY MOUNTAIN HOUSE**      PRESENTLY 11 OUTLETS



**3 REQUIRED**

**8 NOT REQUIRED**

**STETTLER**      PRESENTLY 16 OUTLETS



**4 REQUIRED**

**12 NOT REQUIRED**

Table 102.  
Gasoline Sales in Edmonton, 1965

Gallonage Range	Total Gallons Leased	Total Gallons Owned	Total Gallons	Number of Outlets		
				Leased	Owned	Total
0- 50,000	866,623	667,315	1,533,938	26	26	52
50,000-100,000	5,685,059	1,282,109	6,967,168	74	16	90
100,000-150,000	8,140,701	2,097,945	10,238,646	67	17	84
150,000-200,000	6,617,638	1,538,374	8,156,012	39	9	48
200,000-250,000	6,208,895	444,547	6,653,442	28	2	30
250,000-300,000	4,373,083	557,473	4,930,556	16	2	18
300,000-350,000	2,199,361	301,145	2,500,506	7	1	8
Over 350,000	12,420,754	3,832,425	16,253,179	24	8	32
<b>TOTAL</b> .....	<b>46,512,114</b>	<b>10,721,333</b>	<b>57,233,447</b>	<b>281</b>	<b>81</b>	<b>362</b>
Average Per Leased Outlet .....	165,524					
Average Per Owned Outlet .....	132,362					
Average Per Outlet .....	158,103					

All Outlets

Gallonage Range	Gallonage	Outlets	
0- 50,000	1,533,938	52	15% of the outlets sell 3% of the gasoline
Over 50,000	55,699,509	310	85% of the outlets sell 97% of the gasoline
0-100,000	8,501,106	142	39% of the outlets sell 15% of the gasoline
Over 100,000	48,732,341	220	61% of the outlets sell 85% of the gasoline
0-150,000	18,739,752	226	62% of the outlets sell 33% of the gasoline
Over 150,000	38,493,695	136	38% of the outlets sell 67% of the gasoline
0-200,000	26,895,764	274	76% of the outlets sell 47% of the gasoline
Over 200,000	30,337,683	88	24% of the outlets sell 53% of the gasoline
0-250,000	33,549,206	304	84% of the outlets sell 59% of the gasoline
Over 250,000	23,684,241	58	16% of the outlets sell 41% of the gasoline
0-300,000	38,479,762	322	89% of the outlets sell 67% of the gasoline
Over 300,000	18,753,685	40	11% of the outlets sell 33% of the gasoline
0-350,000	40,980,268	330	91% of the outlets sell 72% of the gasoline
Over 350,000	16,253,179	32	9% of the outlets sell 28% of the gasoline
<b>TOTAL</b> .....	<b>57,233,447</b>	<b>362</b>	

Leased

Range	Gallons	Outlets	
0- 50,000	866,623	26	9% of the outlets sell 2% of the gasoline
50,000 and over	45,645,491	255	91% of the outlets sell 98% of the gasoline
0-100,000	6,551,682	100	36% of the outlets sell 14% of the gasoline
100,000 and over	39,960,432	181	64% of the outlets sell 86% of the gasoline
0-150,000	14,692,383	167	59% of the outlets sell 32% of the gasoline
150,000 and over	31,819,731	114	41% of the outlets sell 68% of the gasoline
0-200,000	21,310,021	206	73% of the outlets sell 46% of the gasoline
200,000 and over	25,202,093	75	27% of the outlets sell 54% of the gasoline
0-250,000	27,518,916	234	83% of the outlets sell 59% of the gasoline
250,000 and over	18,993,198	47	17% of the outlets sell 41% of the gasoline
0-300,000	31,891,999	250	89% of the outlets sell 69% of the gasoline
300,000 and over	14,620,115	31	11% of the outlets sell 31% of the gasoline
0-350,000	34,091,360	257	92% of the outlets sell 73% of the gasoline
350,000 and over	12,420,754	24	8% of the outlets sell 27% of the gasoline
0-400,000	36,353,694	263	94% of the outlets sell 78% of the gasoline
400,000 and over	10,158,420	18	6% of the outlets sell 22% of the gasoline
<b>TOTAL</b> .....	<b>46,512,114</b>	<b>281</b>	

Average Per Leased Outlet ..... 165,523 Gallons.



Range	Owned			
	Gallons	Outlets		
0- 50,000	667,315	26	32% of the outlets sell	6% of the gasoline
50,000 and over	10,054,018	55	68% of the outlets sell	94% of the gasoline
0-100,000	1,949,424	42	52% of the outlets sell	18% of the gasoline
100,000 and over	8,771,909	39	48% of the outlets sell	82% of the gasoline
0-150,000	4,047,369	59	73% of the outlets sell	38% of the gasoline
150,000 and over	6,673,964	22	27% of the outlets sell	62% of the gasoline
0-200,000	5,585,743	68	84% of the outlets sell	52% of the gasoline
200,000 and over	5,135,590	13	16% of the outlets sell	48% of the gasoline
0-250,000	6,030,290	70	86% of the outlets sell	56% of the gasoline
250,000 and over	4,691,043	11	14% of the outlets sell	44% of the gasoline
0-300,000	6,587,763	72	89% of the outlets sell	61% of the gasoline
300,000 and over	4,133,570	9	11% of the outlets sell	39% of the gasoline
0-350,000	6,888,908	73	90% of the outlets sell	64% of the gasoline
350,000 and over	3,832,425	8	10% of the outlets sell	36% of the gasoline
0-400,000	8,408,428	77	95% of the outlets sell	78% of the gasoline
400,000 and over	2,312,905	4	5% of the outlets sell	22% of the gasoline
TOTAL	10,721,333	81		
Average Per Owned Outlet	132,362 Gallons.			
Average For All Outlets	158,103 Gallons.			

Source: Service Station History Cards.

Table 103.  
Gasoline Sales in Calgary, 1965

Gallonage Range	Total Gallons Leased	Total Gallons Owned	Total Gallons	Number of Outlets		
				Leased	Owned	Total
0- 50,000	642,869	633,887	1,276,756	22	25	47
50,000-100,000	4,449,350	1,356,452	5,805,802	57	19	76
100,000-150,000	9,008,819	868,830	9,877,649	74	7	81
150,000-200,000	9,574,928	1,544,282	11,119,210	55	9	64
200,000-250,000	7,926,570	882,339	8,808,909	36	4	40
250,000-300,000	6,968,251	552,377	7,520,628	25	2	27
300,000-350,000	4,496,853	1,013,033	5,509,886	14	3	17
Over 350,000	6,920,511	855,085	7,775,596	15	2	17
TOTAL	49,988,151	7,706,285	57,694,436	298	71	369
Average Per Leased Outlet	167,745					
Average Per Owned Outlet	108,539					
Average Per Outlet	156,353					

All Outlets						
Gallonage Range	Gallonage	Outlets				
0- 50,000	1,276,756	47	13% of the outlets sell	2% of the gasoline		
Over 50,000	56,417,680	322	87% of the outlets sell	98% of the gasoline		
0-100,000	7,082,558	123	33% of the outlets sell	12% of the gasoline		
Over 100,000	50,611,878	246	67% of the outlets sell	88% of the gasoline		
0-150,000	16,960,207	204	55% of the outlets sell	29% of the gasoline		
Over 150,000	40,734,229	165	45% of the outlets sell	71% of the gasoline		
0-200,000	28,079,417	268	73% of the outlets sell	49% of the gasoline		
Over 200,000	29,615,019	101	27% of the outlets sell	51% of the gasoline		
0-250,000	36,888,326	308	83% of the outlets sell	64% of the gasoline		
Over 250,000	20,806,110	61	17% of the outlets sell	36% of the gasoline		
0-300,000	44,408,954	335	91% of the outlets sell	77% of the gasoline		
Over 300,000	13,285,482	34	9% of the outlets sell	23% of the gasoline		
0-350,000	49,918,840	352	95% of the outlets sell	87% of the gasoline		
Over 350,000	7,775,596	17	5% of the outlets sell	13% of the gasoline		
TOTAL	57,694,436	369				

		Leased	
Range	Gallons	Outlets	
0- 50,000	642,869	22	7% of the outlets sell 1.3% of the gasoline
50,000 and over	49,345,282	276	93% of the outlets sell 98.7% of the gasoline
0-100,000	5,092,219	79	27% of the outlets sell 10% of the gasoline
100,000 and over	44,895,932	219	73% of the outlets sell 90% of the gasoline
0-150,000	14,101,038	153	51% of the outlets sell 28% of the gasoline
150,000 and over	35,887,113	145	49% of the outlets sell 72% of the gasoline
0-200,000	23,675,966	208	70% of the outlets sell 47% of the gasoline
200,000 and over	26,312,185	90	30% of the outlets sell 53% of the gasoline
0-250,000	31,602,536	244	82% of the outlets sell 63% of the gasoline
250,000 and over	18,385,615	54	18% of the outlets sell 37% of the gasoline
0-300,000	38,570,787	269	90% of the outlets sell 77% of the gasoline
300,000 and over	11,417,364	29	10% of the outlets sell 23% of the gasoline
0-350,000	43,067,640	283	95% of the outlets sell 86% of the gasoline
350,000 and over	6,920,511	15	5% of the outlets sell 14% of the gasoline
0-400,000	44,579,515	287	96% of the outlets sell 89% of the gasoline
400,000 and over	5,408,636	11	4% of the outlets sell 11% of the gasoline
TOTAL -----	<u>49,988,151</u>	<u>298</u>	
Average Per Leased Outlet -----		<u>167,745</u>	Gallons.

		Owned	
Range	Gallons	Outlets	
0- 50,000	633,887	25	35% of the outlets sell 8% of the gasoline
50,000 and over	7,072,398	46	65% of the outlets sell 92% of the gasoline
0-100,000	1,990,339	44	62% of the outlets sell 26% of the gasoline
100,000 and over	5,715,946	27	38% of the outlets sell 74% of the gasoline
0-150,000	2,859,169	51	72% of the outlets sell 37% of the gasoline
150,000 and over	4,847,116	20	28% of the outlets sell 63% of the gasoline
0-200,000	4,403,451	60	85% of the outlets sell 57% of the gasoline
200,000 and over	3,302,824	11	15% of the outlets sell 43% of the gasoline
0-250,000	5,285,790	64	90% of the outlets sell 69% of the gasoline
250,000 and over	2,420,495	7	10% of the outlets sell 31% of the gasoline
0-300,000	5,838,167	66	93% of the outlets sell 76% of the gasoline
300,000 and over	1,868,118	5	7% of the outlets sell 24% of the gasoline
0-350,000	6,851,200	69	97% of the outlets sell 89% of the gasoline
350,000 and over	855,085	2	3% of the outlets sell 11% of the gasoline
0-400,000	7,201,895	70	99% of the outlets sell 93% of the gasoline
400,000 and over	504,390	1	1% of the outlets sell 7% of the gasoline
TOTAL -----	<u>7,706,285</u>	<u>71</u>	
Average Per Owned Outlet -----		<u>108,539</u>	Gallons.
Average For All Outlets -----		<u>156,353</u>	Gallons.

Source: Service Station History Cards.

Table 104.

## Gasoline Sales in Alberta, 1965

Gallonage Range	Total Gallons	Total Gallons	Total Gallons	Number of Outlets		
	Leased	Owned		Leased	Owned	Total
0- 50,000	6,376,806	23,958,000	30,334,806	234	1,376	1,610
50,000-100,000	19,192,502	19,161,469	38,353,971	257	272	529
100,000-150,000	28,560,271	11,446,630	40,006,901	234	95	329
150,000-200,000	27,681,100	8,982,679	36,663,779	161	52	213
200,000-250,000	19,674,663	5,502,964	25,177,627	89	25	114
250,000-300,000	15,428,485	3,341,632	18,770,117	56	12	68
300,000-350,000	11,104,805	3,266,149	14,370,954	35	10	45
Over 350,000	27,449,114	9,704,233	37,153,347	56	21	77
<b>TOTAL</b> .....	<b>155,467,746</b>	<b>85,363,756</b>	<b>240,831,502</b>	<b>1,122</b>	<b>1,863</b>	<b>2,985</b>
Average Per Leased Outlet .....		138,563				
Average Per Owned Outlet .....		45,821				
Average Per Outlet .....		80,681				

## All Outlets

Gallonage Range	Gallonage	Outlets				
0- 50,000	30,334,806	1,610	54%	of the outlets sell	13%	of the gasoline
Over 50,000	210,496,696	1,375	46%	of the outlets sell	87%	of the gasoline
0-100,000	68,688,777	2,139	72%	of the outlets sell	29%	of the gasoline
Over 100,000	172,142,725	846	28%	of the outlets sell	71%	of the gasoline
0-150,000	108,695,678	2,468	83%	of the outlets sell	45%	of the gasoline
Over 150,000	132,135,824	517	17%	of the outlets sell	55%	of the gasoline
0-200,000	145,359,457	2,681	90%	of the outlets sell	60%	of the gasoline
Over 200,000	95,472,045	304	10%	of the outlets sell	40%	of the gasoline
0-250,000	170,537,084	2,795	94%	of the outlets sell	71%	of the gasoline
Over 250,000	70,294,418	190	6%	of the outlets sell	29%	of the gasoline
0-300,000	189,307,201	2,863	96%	of the outlets sell	79%	of the gasoline
Over 300,000	51,524,301	122	4%	of the outlets sell	21%	of the gasoline
0-350,000	203,678,155	2,908	97%	of the outlets sell	85%	of the gasoline
Over 350,000	37,153,347	77	3%	of the outlets sell	15%	of the gasoline
<b>TOTAL</b> .....	<b>240,831,502</b>	<b>2,985</b>				

## Leased

Range	Gallons	Outlets				
0- 50,000	6,376,806	234	21%	of the outlets sell	4%	of the gasoline
50,000 and over	149,090,940	888	79%	of the outlets sell	96%	of the gasoline
0-100,000	25,569,308	491	44%	of the outlets sell	16%	of the gasoline
100,000 and over	129,898,438	631	56%	of the outlets sell	84%	of the gasoline
0-150,000	54,129,579	725	65%	of the outlets sell	35%	of the gasoline
150,000 and over	101,338,167	397	35%	of the outlets sell	65%	of the gasoline
0-200,000	81,810,679	886	79%	of the outlets sell	53%	of the gasoline
200,000 and over	73,657,067	236	21%	of the outlets sell	47%	of the gasoline
0-250,000	101,485,342	975	87%	of the outlets sell	47%	of the gasoline
250,000 and over	53,982,404	147	13%	of the outlets sell	53%	of the gasoline
0-300,000	116,913,827	1,031	92%	of the outlets sell	75%	of the gasoline
300,000 and over	38,553,919	91	8%	of the outlets sell	25%	of the gasoline
0-350,000	128,018,632	1,066	95%	of the outlets sell	82%	of the gasoline
350,000 and over	27,449,114	56	5%	of the outlets sell	18%	of the gasoline
0-400,000	134,051,030	1,082	96%	of the outlets sell	86%	of the gasoline
400,000 and over	21,416,716	40	4%	of the outlets sell	14%	of the gasoline
<b>TOTAL</b> .....	<b>155,467,746</b>	<b>1,122</b>				

Average Per Leased Outlet ..... 138,563 Gallons.

Range	Owned		
	Gallons	Outlets	
0- 50,000	23,958,000	1,376	74% of the outlets sell 28% of the gasoline
50,000 and over	61,405,756	487	26% of the outlets sell 72% of the gasoline
0-100,000	43,119,469	1,648	88% of the outlets sell 51% of the gasoline
100,000 and over	42,244,287	215	12% of the outlets sell 49% of the gasoline
0-150,000	54,566,099	1,743	94% of the outlets sell 64% of the gasoline
150,000 and over	30,797,657	120	6% of the outlets sell 36% of the gasoline
0-200,000	63,548,778	1,795	96% of the outlets sell 74% of the gasoline
200,000 and over	21,814,978	68	4% of the outlets sell 26% of the gasoline
0-250,000	69,051,742	1,820	98% of the outlets sell 81% of the gasoline
250,000 and over	16,312,014	43	2% of the outlets sell 19% of the gasoline
0-300,000	72,393,374	1,832	98% of the outlets sell 85% of the gasoline
300,000 and over	12,970,382	31	2% of the outlets sell 15% of the gasoline
0-350,000	75,659,523	1,842	99% of the outlets sell 89% of the gasoline
350,000 and over	9,704,233	21	1% of the outlets sell 11% of the gasoline
0-400,000	78,269,862	1,849	99% of the outlets sell 92% of the gasoline
400,000 and over	7,093,794	14	1% of the outlets sell 8% of the gasoline
TOTAL -----	<u>85,363,756</u>	<u>1,863</u>	
Average Per Owned Outlet -----	45,821 Gallons.		
Average For All Outlets -----	<u>80,681 Gallons.</u>		

Source: Service Station History Cards.

If all Edmonton stations selling less than 150,000 gallons were closed

- (a) this would eliminate 167 leased outlets, and 59 owned outlets, being a total of 226 outlets;
- (b) the remaining outlets would have their volumes increased by approximately  $\frac{1}{3}$ , as the leased outlets that would be closed only sell 32% of the gasoline sold through leased outlets and the owned outlets that would be closed only sell 38% of the gasoline sold through owned outlets.

The effect of closing these 226 stations in Edmonton would probably be to increase the average gallonage per outlet that remains to approximately the new averages shown in Table 105 entitled "Edmonton Over Capacity". This indicates that stations selling an average gallonage of 170,000 gallons would increase to 250,000 gallons approximately.

The experience of the oil companies in their employee operated stations dealt with in the chapter entitled "Service Station Economics" was that all of their stations under 200,000 gallons annual volume lost money.

The closure of enough outlets to provide a minimum annual gallonage of 200,000 gallons per year does not seem unreasonable having regard to the actual experience of the oil companies in their own stations.



Table 105.

## Over Capacity — Edmonton

If in Edmonton stations of 150,000 gallons or less were closed:

Leased	167	14,692,383 gallons
Owned	59	4,047,369 gallons

a total of 226 stations would be closed leaving 136 stations a volume of 18,739,752 gallons to share on a proportionate basis.

Leased						
Gallage Range	Number of Stations	Present Total Gallage	Gallage* to be Distributed	Total Gallage	Old Average	New Average
150,000-200,000	39	6,617,638	3,221,642	9,839,280	169,683	252,289
200,000-250,000	28	6,208,895	3,022,655	9,231,550	221,746	329,698
250,000-300,000	16	4,373,083	2,128,933	6,502,016	273,318	406,376
300,000-350,000	7	2,199,361	1,070,707	3,270,068	314,194	467,153
Over 350,000	24	12,420,754	6,046,753	18,467,507	517,531	769,479
Owned						
150,000-200,000	9	1,538,374	748,921	2,287,295	170,930	254,144
200,000-250,000	2	444,547	216,417	660,964	222,274	330,482
250,000-300,000	2	557,473	271,393	828,866	278,736	414,433
300,000-350,000	1	301,145	146,605	447,750	301,145	447,750
Over 350,000	8	3,832,425	1,865,726	5,698,151	479,053	712,269
TOTAL	136	38,493,695	18,739,752	57,233,447		

	Old	New
Average for Leased Stations	279,120	415,004
Average for Owned Stations	303,362	451,047
Average for All Stations	283,042	420,834

\* Total Gallage to be Distributed x Gallage in Category

Total Edmonton Gallage Now Sold Through Remaining Stations

Source: Service Station History Cards.

The comparable figures in the case of Calgary would be the closure of 153 leased outlets, and 51 owned outlets being a total of 204 outlets. This is 51% of the leased outlets and 72% of the owned outlets. These outlets now sell 28% of the gallage sold by leased stations and 37% of the gallage sold by owned stations. Their closure would increase the sales per outlet to the new averages shown in Table 106 entitled "Calgary Overcapacity". This indicates that stations with an average gallage of 170,000 gallons would increase their sales to 250,000 gallons.

Throughout the entire province of Alberta 79% of the leased outlets sell less than 200,000 gallons and 96% of owned outlets sell less than 200,000 gallons. If an annual gallage of 200,000 gallons is required to provide the operator with a reasonable income, it is apparent how near owned service stations are to extinction. Of the owned stations in existence in 1965, both in urban and rural areas, 88% of them sold less than 100,000 gallons per year and only 4% sold in excess of 200,000 gallons per year.

Table 106.  
Over Capacity — Calgary

If in Calgary stations of 150,000 gallons or less were closed:

Leased .....	153	14,101,038 gallons
Owned .....	51	8,859,169 gallons

a total of 204 stations would be closed leaving 165 stations a volume of 16,960,207 gallons to share on a proportionate basis.

Leased						
Gallonge Range	Number of Stations	Present Total Gallonge	Gallonge* to be Distributed	Total Gallonge	Old Average	New Average
150,000-200,000	55	9,574,928	3,986,641	13,561,569	174,090	246,574
200,000-250,000	36	7,926,570	3,300,327	11,226,897	220,183	311,858
250,000-300,000	25	6,968,251	2,901,319	9,869,570	278,730	394,783
300,000-350,000	14	4,496,853	1,872,321	6,369,174	321,204	454,941
Over 350,000	15	6,920,511	2,881,442	9,801,953	461,367	653,464
Owned						
150,000-200,000	9	1,544,282	642,981	2,187,263	171,587	243,029
200,000-250,000	4	882,339	367,373	1,249,712	220,585	312,428
250,000-300,000	2	552,377	229,989	782,366	276,189	391,183
300,000-350,000	3	1,013,033	421,789	1,434,822	337,677	478,274
Over 350,000	2	855,085	356,025	1,211,110	427,543	605,555
TOTAL	165	40,734,229	16,960,207	57,694,436		

	Old	New
Average for Leased Stations .....	247,497	350,546
Average for Owned Stations .....	242,356	343,262
Average for All Stations .....	246,874	349,663

$$\frac{\text{*Total Gallonge to be Distributed x Gallonge in Calgary}}{\text{Total Calgary Gallonge Now Sold Through Remaining Stations}}$$

Source: Service Station History Cards.

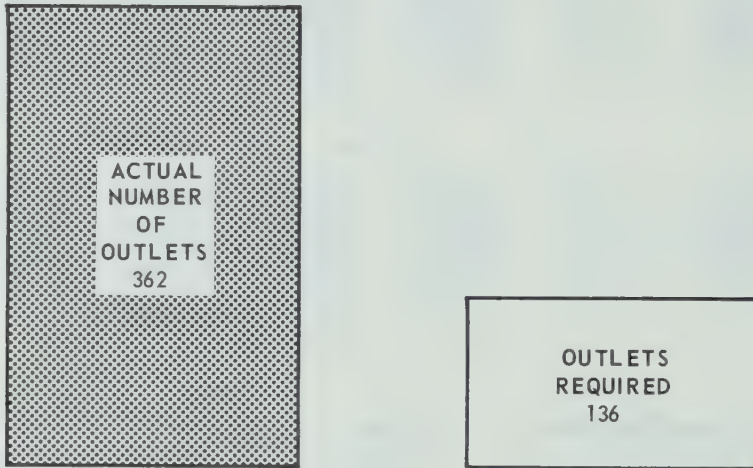
CHART 56

**REDUCTION OF OUTLETS**

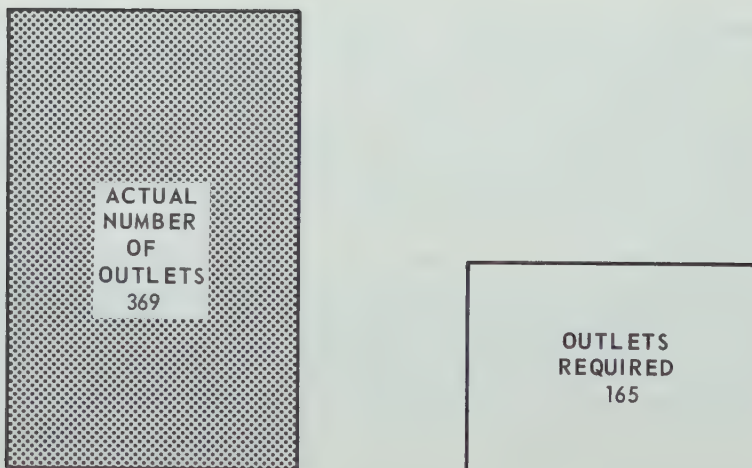
BY CLOSURE OF THOSE UNDER

150,000 GALLONS PER YEAR

EDMONTON



CALGARY



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

#### **(4) Population Per Retail Gasoline Outlet**

Average gasoline use is 160 gallons per person. 10,000 persons can be expected to use 1,600,000 gallons per year.

If “other” brand outlets or “off-brand” outlets are allowed to have 10% of the market, a community of 10,000 persons would support one such outlet with an annual gallonage of 160,000 gallons.

If the subsidiaries of “cartel” companies supply 90% of the market, on the average this would give to each of the five subsidiaries 18% of the market in that community or 300,000 gallons per annum.

The market share of these companies differs, but if the range for each was between 15% and 25% of the market in the community this would give a gallonage range of from 240,000 gallons per annum to 400,000 gallons per annum, which would support one better-than-average station in that community for each of the five subsidiaries of “cartel” companies operating in Alberta.

For each 10,000 persons this would allow for six outlets selling six different brands each with a reasonable volume, and a reasonable prospect for success.

One subsidiary of a “cartel” company indicated that its representation in Calgary was approximately one outlet per 5,500 of population. It regarded this representation as excessive, and in one section of the city it is contemplating closure of four out of seven outlets which were serving that particular section of the city in 1965.

An oil company which has 15% of the market will consider it requires as many outlets as another oil company which has 25% of the market. The 25% marketer will have larger gallonage per outlet and more profitable outlets, but the 15% marketer will want just as many outlets with a view to maintaining its representation and increasing its percentage of market volume.

Each subsidiary of a “cartel” company which is a major marketer tends to work towards approximately equal numbers of outlets to acquire its share of the market available in each community.

Executives of one major marketer advised that their company had adopted future standards for service station investment. Those future standards are—

- (a) gasoline gallonage of 300,000 gallons;
- (b) 7% return on invested capital after taxes and depreciation; and
- (c) dealer earnings of \$10,000.00 per year.

These proposed standards of course bear practically no resemblance to actual conditions in many existing stations.



Table 107.

**Population Per Retail Outlet — Alberta, 1965****Population**

Edmonton	388,000
Calgary	327,000

Each 10,000 of population can reasonably support a group of 6 outlets representing 6 brands.

**Edmonton — Reduce Outlets from 362 to 233**

	<b>Outlets</b>	<b>Population Per Outlet</b>
Imperial	83	4,675
B.A.	55	7,055
Royalite	49	7,918
Shell	85	4,565
Texaco	46	8,435
All Others	44	8,818
	<hr/> 362	<hr/> 6,431*

\* In Edmonton each group of 6 stations representing 6 brands is dependent for support on 6,431 people.

$$\frac{362 \text{ outlets}}{6 \text{ brands}} = 60.3 \text{ groups of outlets}$$

$$\frac{388,000 \text{ population}}{60.3 \text{ gps. of outlets}} = 6,431 \text{ population per group}$$

In Edmonton service stations would have a reasonable opportunity for success if their numbers were reduced to

$$\frac{388,000 \text{ pop.}}{10,000 \text{ pop.}} \times 6 \text{ outlets} = 233 \text{ outlets.}$$

**Calgary — Reduce Outlets from 369 to 196**

	<b>Outlets</b>	<b>Population Per Outlet</b>
Imperial	60	5,450
B.A.	58	5,638
Royalite	60	5,450
Shell	72	4,542
Texaco	61	5,361
All Others	58	5,638
	<hr/> 369	<hr/> 5,317*

\* In Calgary each group of 6 stations representing 6 brands is dependent for support on 5,317 people.

$$\frac{369 \text{ outlets}}{6 \text{ brands}} = 61.5 \text{ groups of outlets}$$

$$\frac{327,000 \text{ population}}{61.5 \text{ gps. of outlets}} = 5,317 \text{ population per group}$$

In Calgary service stations would have a reasonable opportunity for success if their number were reduced to

$$\frac{327,000 \text{ pop.}}{10,000 \text{ pop.}} \times 6 \text{ outlets} = 196 \text{ outlets.}$$

CHART 57

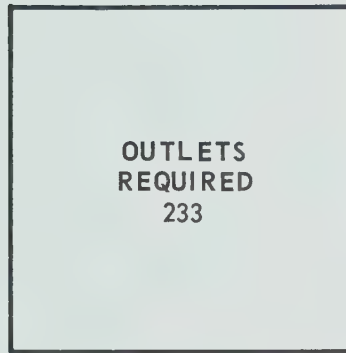
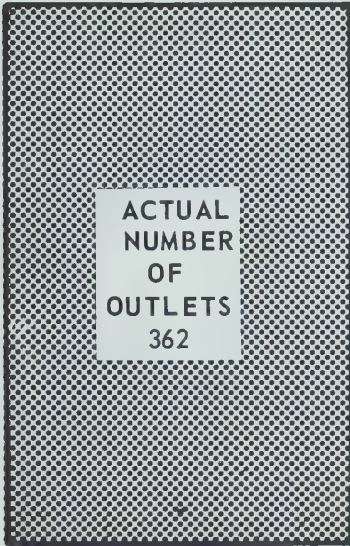
# POPULATION PER RETAIL OUTLET

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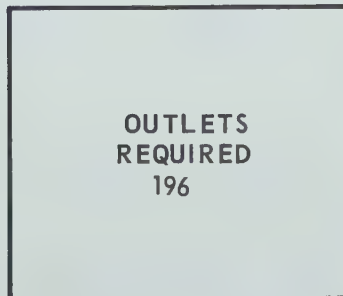
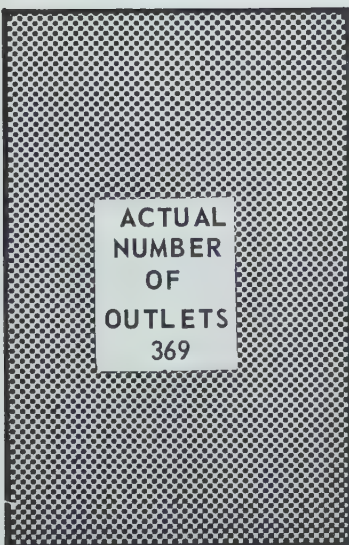
1965

EACH 10,000 OF POPULATION CAN REASONABLY SUPPORT  
A GROUP OF 6 OUTLETS REPRESENTING 6 BRANDS.

EDMONTON



CALGARY



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

**(5) Observations on Capacity of Service Stations in a Sample Area**

In order to check the validity of the information collected in questionnaires from service station operators, and to test the ability of existing stations to handle consumer demand during peak periods, a survey was undertaken of a sample area in South Edmonton. The area included sixteen stations servicing both business and residential needs.

Information from station operators indicated that their busiest period for gasoline sales fell between 4:00 p.m. and 6:30 p.m. The heaviest volume was expected during these hours on a Friday preceding a long holiday weekend. Working with this information the survey team entered the sample area on Friday, July 29, 1966 preceding the Edmonton Civic Holiday weekend and again on Friday, September 2, 1966 preceding the Labor Day weekend at 4:00 p.m. to make observations on service station activity and pump utilization over the 2½ hour period. Data from the surveys was treated separately for purposes of comparison and then combined to increase the level of confidence in results.

Results from the random sample indicated little difference in employee activity and pump utilization during the same period on the different Fridays. The division of man-hours is shown pictorially in Chart 58.

(a) Gasoline Sales .....	25%
(b) Waiting for Gasoline Sales .....	21%
(c) Merchandise Sales .....	4%
(d) Repair and Service .....	34%
(e) Administration and Clean-up .....	16%

As indicated, the percentage of man-hours utilized for gasoline sales represents only 25% of the total available. 21% of the total was waiting, or idle, time.

The peak period in gasoline sales was found to be from 5:30 p.m. to 5:45 p.m., which was consistent with the information supplied by station operators. At this peak, 40% of man-time, or four men out of every 10, were engaged in gasoline sales. One man in 10 was waiting, five men out of every 10 were engaged in administration, clean-up, repair and service.

During peak periods no line-up for service was observed in any station at any time in several hundred observations.

There were 59 pumps in the sample area. Utilization of pumps for the time approaching, during, and following the peak period is shown graphically in Chart 59. (Utilization shown is total number observed in use as % of total available.)

**Observation Period**

During the peak less than 5 pumps in 10 were being used at any given time.

To further determine that the surveys had been conducted during peak periods, the team entered the sample area again on September 30, 1966, a regular Friday, to record observations from 7:00 a.m. to 7:00 p.m. Station operators were asked to record the gallonages pumped each day of the week September 26 to October 1, during these hours.

Results confirmed that the period 4:00 to 6:30 p.m. was the peak during the day. Average utilization of the pumps was 32% over the entire period while utilization during the peak was only 35%, 8% lower than the same period in the previous survey.

Gallonage pumped during the week is shown in Chart 60.

Projection of the number of gallons sold on the Friday over 300 working days and comparison of this figure with the total number of gallons sold in the sample area in the year 1965 show that 32% pump utilization is also the mean throughout the year.

Although Saturday, October 1, shows a higher volume of gasoline sales than the Friday, it still represents only an average of 42% utilization of pump capacity in the sample area.

CHART 58

DIVISION OF MAN-HOURS DURING RUSH HOUR

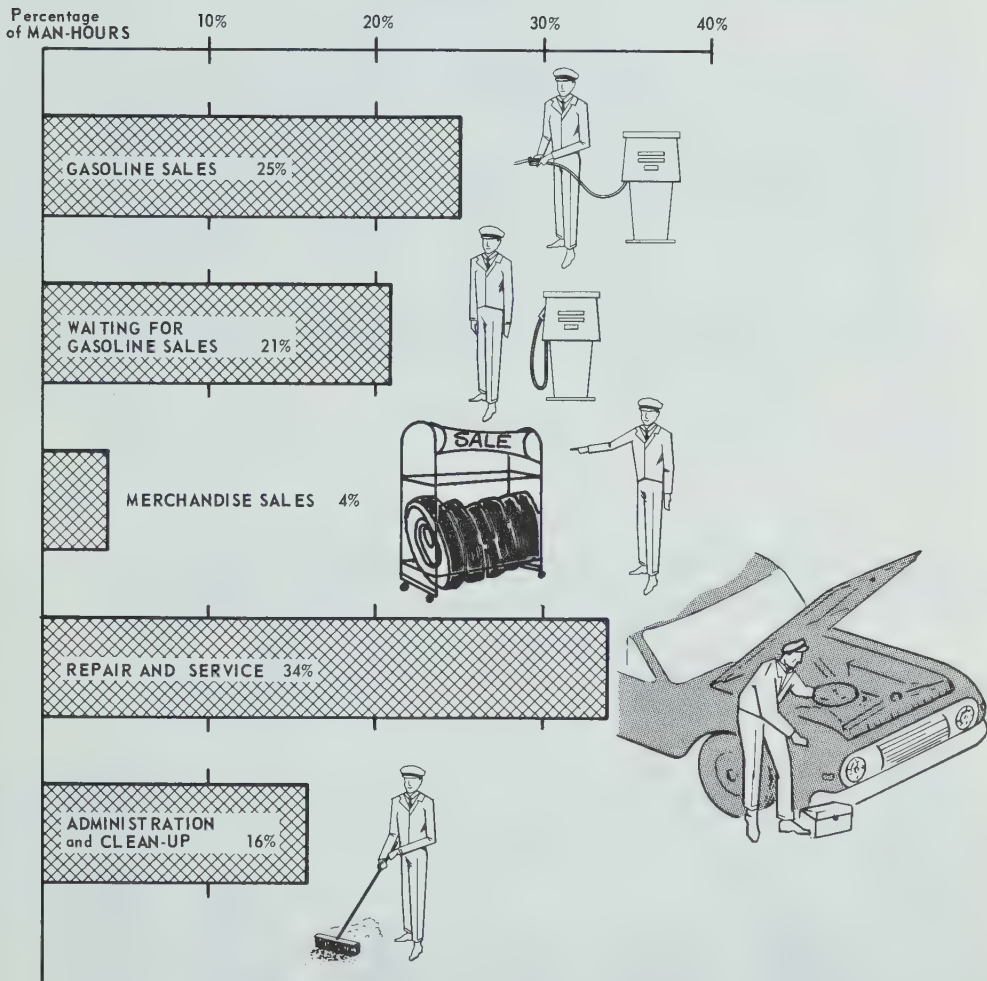




CHART 59

# PERCENT UTILIZATION OF PUMPS

IN SAMPLE AREA 16

FRIDAY, JULY 29, AND SEPT. 2, 1966

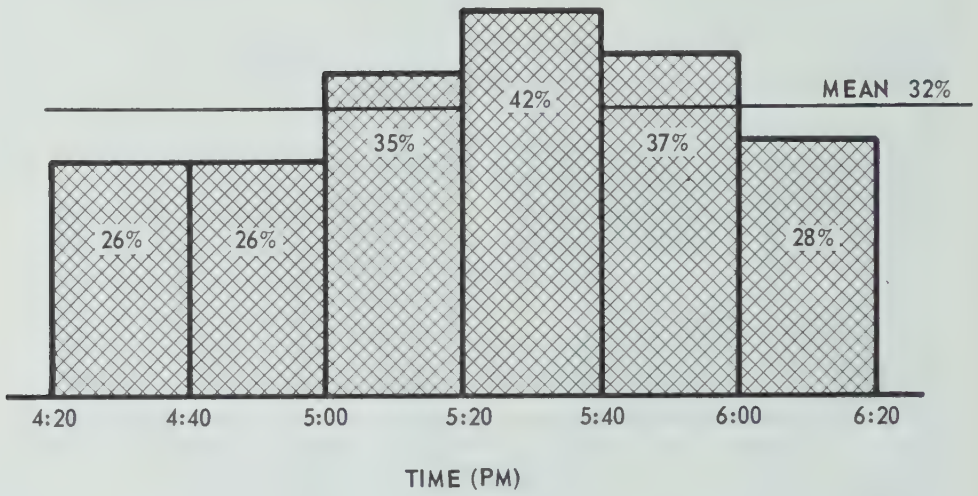
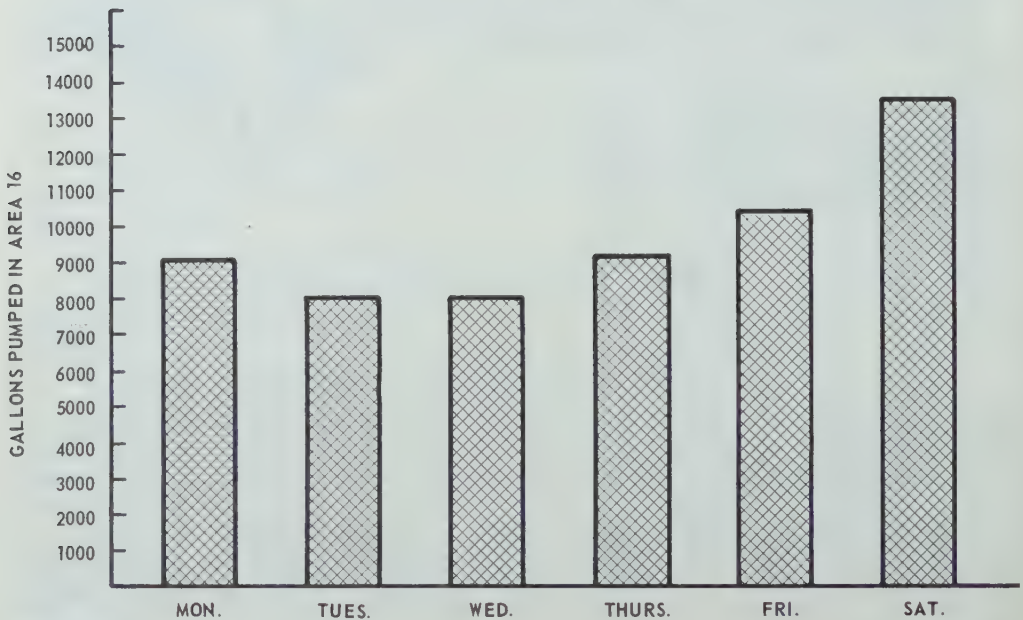


CHART 60

# GALLONAGE PUMPED IN SAMPLE AREA 16

OVER THE 6 DAY PERIOD, 12 HOURS PER DAY,

SEPTEMBER 26 TO OCTOBER 1, 1966



Results from the last survey indicate that the 5:30 to 5:45 p.m. periods on July 29 and September 2 were peak ones, although not the highest that might occur. (Saturday, October 1 averaged 42% over the whole day, indicating peaks somewhat higher at some times during that day.)

The surveys taken were not intended to be a comprehensive study of all details and variables related to gasoline marketing. Their purpose was to check the accuracy, by random sampling in a limited area, of data collected by other means. Results indicate that during those periods when gasoline sales approach a peak, only 42% of service station pump capacity is being utilized.

Preferences of the motoring public and the physical arrangement of service stations make some excess capacity mandatory. How much excess capacity would be reasonable is difficult to determine. If up to 50% excess capacity were reasonable, the survey indicates present capacity is beyond reasonable requirements.

There were 59 pumps in the sample area. If 42% utilization of these pumps meets the requirements of motorists during peak volume periods then only 25 pumps would be required, provided they were used continuously. If, up to, 50% excess capacity would reasonably accommodate motorist convenience, then an additional 13 pumps would be required for a total of 38 pumps. 38 pumps which provide 50% excess capacity are 36% less than the 59 pumps that now exist in the sample area surveyed. The results of this survey conformed closely to information collected by questionnaires and other means.

#### **(6) What Price Markets? — The Cost of Too Many Stations**

The following are extracts from Chapter V of the "Report to the Federal Trade Commission by its Staff on the International Petroleum Cartel".

"Prior to the discovery of oil in Bahrein by the Standard of California in 1932, the world oil situation was being molded to conform to a definite pattern of cooperation, which included limitations on production, sharing of markets, and stabilization of prices. Thus, the Bahrein discovery was a disturbing event."

"The big three International Oil Companies were fearful that Standard of California would force Bahrein products into world markets by reducing prices."

"Standard of California evidently concluded that the way out of the dilemma was to purchase existing marketing organizations and thus obtain a marketing position which would make it possible to market Bahrein products without having to grant price concessions."

"On July 1, 1936, an agreement was made between Standard of California and the Texas Co., whereby Standard of California received a one-half interest in the Texas Co.'s marketing facilities east of Suez and the Texas Co. a one-half interest in the Bahrein concession and facilities."

After Standard Oil Co. of California discovered oil on Bahrein, it sought and obtained a large oil concession in Saudi Arabia where it was believed the same geological formations existed. By agreement between Standard of California and the Texas Co. the latter was also given a one-half interest in the Saudi Arabian concession, where their joint operation became known as Arabian American Oil Co. or Aramco.

"The Texas Co. had developed markets in Europe, China, Australasia, Africa and other areas in the Far East and had supplied these markets with products from the United States. Thus it was to the mutual advantage of Texas and Standard of California to merge these interests — Texas to obtain a source of supply nearer than America and Standard of California to obtain an outlet for Bahrein products".

"Standard of California now had a marketing outlet for Bahrein products and for any production that might be developed by Aramco in Saudi Arabia".

By 1950 Aramco was producing about 35% of all production in the Middle East which made it the second largest producer of oil in the Middle East.

Standard of California had bargained away half of its interest in the production of oil from Bahrein and Saudi Arabia to obtain access to markets "East of Suez".

"With its oil fields proven to the extent of several billion barrels, with added refinery capacity, with basic development work completed, and with plans well under way for the construction for a large diameter crude oil pipeline from Arabia to the Mediterranean, Aramco at the end of the war, was capable of supplying oil in quantities far beyond its pre-war production. The question of where it would market this oil was a matter of concern not only to Standard of California and the Texas Co. (Aramco and Bahrein's parents) but also to the other international companies."

To gain access to the markets of Europe, Standard of California and the Texas Co. by a series of agreements gave up a 40% interest in Aramco and in Trans-Arabian Pipeline Co. which was acquired 30% by Standard of New Jersey and 10% by Socony-Vacuum.

"The owners of Aramco (Standard of California and the Texas Co.) were apparently faced with a choice of either forcing their way by competitive means into markets which before the war had been closed to them because of international cartel arrangements, or permitting companies which did have marketing outlets and positions in areas west of Suez to acquire a proprietary interest in Aramco".

"The international oil companies decided to take the latter course of action. Texas and Standard of California would obtain additional markets for Aramco without having to compete for them, while Jersey and Socony, with their world wide interests, could distribute their shares of Aramco's output with the result that world prices and markets would not be disturbed."

"Jersey Standard and Socony-Vacuum entered into contracts to buy oil from Aramco. Thus, while new markets were opened up to Aramco, the recognized marketing positions of the international oil companies were preserved. The principal change was a shifting in their sources of supply on the part of three of the four American companies which now own Aramco in order to make room for Aramco's production, which they are now in a position to control."

Accordingly it would appear that Standard of California in order to gain access to the Texas Co.'s markets "East of Suez" paid a price equal to a half interest in its production in Bahrein and Saudia Arabia.

Subsequently Standard of California and the Texas Co. in order to gain access to the markets of Europe paid to Jersey Standard and Socony-Vacuum a price equal to a 40% interest in the production of the Aramco in Saudi Arabia.

It is obvious that the "cartel" companies will pay a vast price for markets.

It is also obvious that the "cartel" companies prefer other means than price wars to acquire or gain entry to markets.

The actions of "cartel" subsidiaries in Alberta appear to conform to this pattern. Shell acquired the refining facilities and marketing outlets of Canadian Oil to enlarge its share of the market. Gulf Oil acquired a controlling interest in British American and British American took over Royalite. Royalite in turn acquired the marketing outlets of such companies as Purity 99 Oil Limited, Anglo American Exploration Ltd., Great West Distributors Ltd., Gas & Oil Products Ltd., Alberta Hi Way Refineries Ltd., White Bear, Lion Oil Ltd., and Sanford Oils Ltd.

Another means of "Buying In" to the market is simply to build a chain of large modern service stations irrespective of whether a surplus of service stations already exists. Such service stations may be quite uneconomic for a number of years but they gradually acquire a share of the existing market and as an area grows and demand increases they acquire a share of the increase. A "cartel" company with a long term outlook may well consider that a loss on service station operations for a number of years is a cheaper method of gaining access to a particular market than the methods outlined above. Furthermore its loss on operations of service stations may be partially offset by the increase in value of the real estate in its sites. The marketing loss would also be offset by profits on additional crude oil that it would be able to produce and refine for sale through these additional outlets.

Against the background of an integrated company with a long term point of view, the construction of uneconomic service stations in a particular market may be economically justified.

However, from the point of view of service station operators who are induced to go into business in such uneconomic outlets and from the point of view of other service station operators in competitive outlets whose economics are made less attractive by having to share a market that is already inadequate, such overbuilding may be disastrous.



## **(7) Tied Outlets, and Too Many Service Stations**

The system of tying outlets which results in each company having several hundred outlets tied exclusively to it, is a contributing factor to overbuilding. A community or a neighborhood may already have an adequate number of service stations to supply its gasoline requirements, but if three companies have representation in the neighborhood and two others don't, the two others may feel compelled to build on the theory of "protective representation". This expression describes the theory that a company has to be represented in every market to protect its market's share, no matter how small a volume may be available to share.

In the case of a market area which already has too many service stations, and in which a company is not represented, the application of this theory may lead to the building of a service station to give that company representation, although there is no present economic justification for erecting another service station in that market.

If this is done it achieves the oil company objective of obtaining representation in the market. However, the operators of that station and of the other stations in that market area whose business is shared with the new station will all suffer because the total volume is inadequate to economically support all of the stations that have been built.

A similar problem faces a new marketer who intends to enter the market. The new company has no hope of being able to provide some of the volume being handled through existing outlets because all existing outlets are tied. The new marketer accordingly has only two choices

- (a) to buy up an existing chain of outlets; or
- (b) to build a new set of outlets, one in every community or market whether the community needs it or not.

Professor T. Barna of The Monopolies Commission in Great Britain stated:

"The present inefficient distribution is the result of the form which competition between suppliers is taking or has taken in the past."

"Competition for outlets results partly in direct over-investment in outlets."

"Over-investment in petrol stations and excessive site values increase the cost of entry for new suppliers."

In any community if the existing volume barely supports three existing outlets and two more oil companies decide they have to be represented, then the necessary result is that the existing available volume must be shared by five rather than by three. There will be a period of years before the demand for gasoline grows sufficiently to use the available capacity of the five stations during which time most or all of the stations will be providing an inadequate living for their operators, leading to a succession of failures or closures.

Where each marketer has several hundred tied outlets to which it has the exclusive right to sell and to which no other marketer can sell, there is a direct relationship between number of outlets and volume marketed. One method of increasing volume is to increase the number of outlets to which the marketer has the exclusive right to sell.

The question is not so much whether a particular community or market has enough outlets to satisfy its gasoline requirements, it is more a question of whether the marketer is represented in that market. The market may be small, but if the marketer is going to have any part of it he must have an outlet there. To some extent the number of outlets there are in a community may depend on the number of companies that want to be represented in that community rather than the need of the community for more outlets.

The building of another outlet in a community to share the existing volume available in that market may mean that all outlets will be reduced to an economically marginal volume. However, the marketer who isn't represented there wants its market share regardless of cost and regardless of the impact on existing service station operators.

The Committee is of the opinion that overbuilding occurs in part because of the artificial stimulus created by tied outlets. There would be less pressure for overbuilding if outlets were not tied to particular marketers.



## CHAPTER 26. EXTINCTION OF PRIVATELY OWNED SERVICE STATIONS

### (1) Canadian Trend

The Restrictive Trade Practices Commission in Ottawa in its 1962 Report at page 21 found a large increase in the number of lessee operated stations and a decline in the number of owner operated stations between 1951 and 1958. Changes in relative importance of the four types of stations selling national brand gasolines may be seen by comparing the following percentages for January 1, 1951 and January 1, 1958.

Canada		
	January 1, 1951	January 1, 1958
Lessee operated .....	13.2%	25.7%
Financially assisted .....	11.8%	15.5%
Owner operated .....	74.9%	58.1%
Company owned and operated .....	0.1%	0.7%

Table 108 which follows, appeared at page 22 of the Commission's report and gives details of the sharp percentage increase in lessee operated and company operated service stations between 1951 and 1958 while owned stations were closing.

It is to be noted that 3,476 independently owned service stations went out of business during the same period that 4,923 oil company owned but lessee operated stations were built.

3,476 privately owned independent service stations ceased to operate during the period when oil companies increased the number of outlets over which they have a substantial measure of control as follows.

4,923 additional lessee operated outlets
575 additional company operated outlets
1,628 additional outlets financed by oil companies
<hr/>
7,126 additional outlets substantially controlled by oil companies

Table 108.

Changes in Relative Importance of Different Classes of Service Stations\*—1951 to 1958  
Number of Stations and Percent of Total

Date	Company Operated		Lessee Operated		Financially Assisted		Independent Brand		All Classes	
	No.	%	No.	%	No.	%	No.	%	No.	%
January, 1951 .....	36	0.1	4,245	13.2	3,820	11.8	24,162	74.9	32,263	100
January, 1953 .....	112	0.3	4,609	14.5	4,470	13.9	22,800	71.3	31,991	100
January, 1955 .....	92	0.3	5,382	15.7	5,424	15.7	23,506	68.3	34,404	100
January, 1958 .....	243	0.7	9,168	25.7	5,502	15.5	20,686	58.1	35,599	100

Changes in Number in Period and Percent Changes

Period	No.	%	No.	%	No.	%	No.	%	No.	%
January, 1951 to										
January, 1953 .....	+ 76	+211.1	+ 364	+ 8.6	+ 650	+17.0	—1,362	— 5.6	— 272	— 0.8
January, 1953 to										
January, 1955 .....	— 20	— 17.8	+ 773	+ 16.8	+ 954	+21.3	+ 706	+ 3.1	+2,413	+ 7.5
January, 1955 to										
January, 1958 .....	+151	+164.1	+3,786	+ 70.3	+ 78	+ 1.4	—2,820	—12.0	+1,195	+ 3.5
January, 1951 to										
January, 1958 .....	+207	+575.0	+4,923	+116.0	+1,682	+44.0	—3,476	—14.4	+3,336	+10.3

\* Based on Data for 21 companies comprising 97.6 per cent of total stations in 1958.  
(Green Book, p.43)

## **(2) Alberta Trend—Decline in Privately Owned Outlets .**

The trend to increasing numbers of oil company outlets and to decreasing numbers of privately owned outlets which was apparent from the Restrictive Trade Practices Commission report relating to the 1950's is even more apparent in Alberta in the 1960's.

During the ten year period from 1955 to 1965 in Alberta the subsidiaries of five "cartel" oil companies increased the number of tied retail outlets over which they have a measure of control from 1,381 to 2,757, while during the same period other marketers declined from 1,547 to 387. Tied outlets include both lessees and owners, but the lessees increased in number while owners decreased.

An examination was made of the outlets of one company over a 15 year period. During this period the number of lessees increased and the number of owners declined. For each additional lessee established approximately 5 owners ceased to operate. Although the oil company keeps building too many stations and establishing new lessees, if there is criticism of over-building the oil company can point to a net decrease in number of outlets. The oil company is steadily increasing the number of leased outlets, but the number of owned outlets is decreasing more rapidly resulting in a net decrease.


During the 15 year period, although there was a very large increase in gasoline consumption by the automotive market, the volume sold by owners only increased by one half while the volume sold by lessees increased by five times. The number of owned outlets receiving financial assistance over the 15 year period did not vary greatly, but the volume sold by owners (financed) doubled. It appears that financial assistance is given to those owned outlets whose volume is increasing more rapidly than that of the average owned outlet. Such financed outlets with large potential volume have frequently been acquired by the oil company in due course and become lessee outlets.

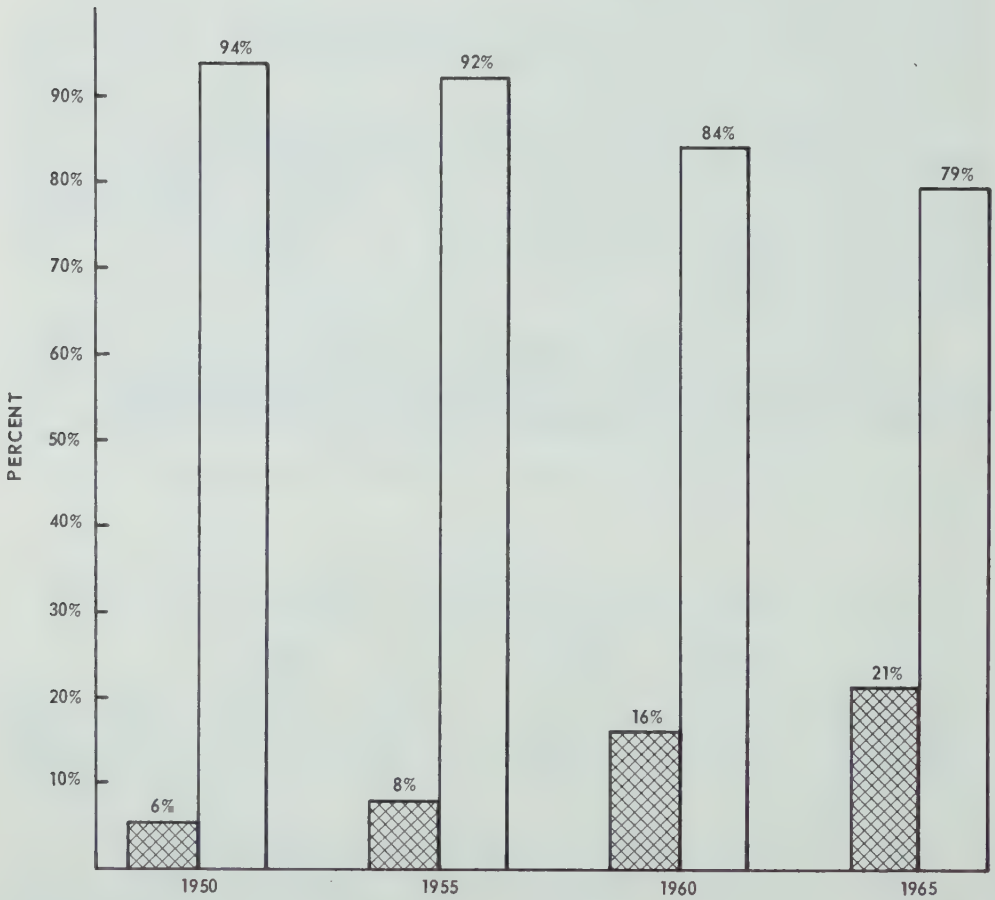
In outlets classified as "service stations" the private owner has largely been eliminated. In outlets classified as "other businesses with some gasoline sales" there are still numbers of private owners. In such outlets, the gasoline gallonage per outlet is small and the owner's income is principally derived from his "other business".

CHART 61

# **TREND TO** **EXTINCTION OF OWNED OUTLETS** **ALBERTA 1950 - 1965**

## **OWNED OUTLETS DECLINE IN NUMBER**

	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>
 OUTLETS LEASED FROM OIL COMPANY	6%	8%	16%	21%
 OUTLETS OWNED BY OPERATOR	94%	92%	84%	79%





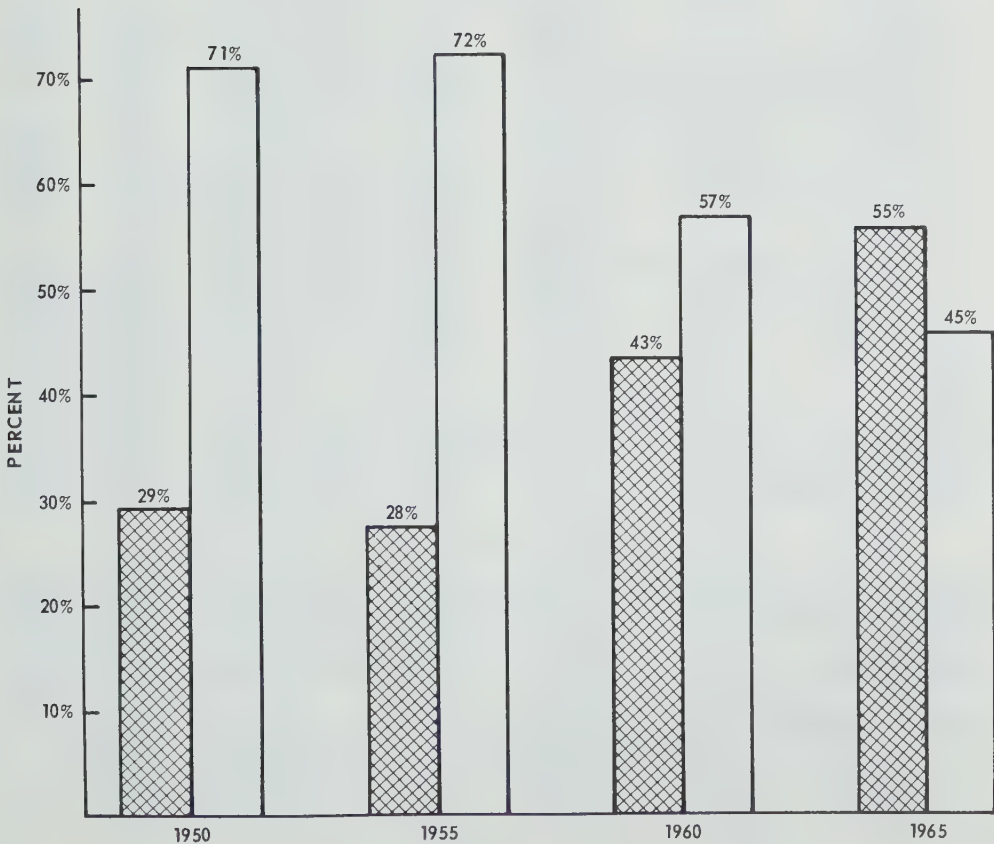
SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

CHART 62

# **TREND TO** EXTINCTION OF OWNED OUTLETS ALBERTA 1950 - 1965

## DECLINE IN GASOLINE VOLUME SOLD BY OWNED OUTLETS

	<u>1950</u>	<u>1955</u>	<u>1960</u>	<u>1965</u>
 VOLUME SOLD BY OUTLETS LEASED FROM OIL COMPANY	29%	28%	43%	55%
 VOLUME SOLD BY OUTLETS OWNED BY OPERATOR	71%	72%	57%	45%



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



### (3) "Cartel" Subsidiaries Increase Outlets in the Alberta Market

The outlets of "cartel" subsidiaries increased from approximately 1381 to 2757 in the ten years.

The outlets of other marketers declined from approximately 1547 to 387 in the ten years.

Gulf Oil which appears to have had no outlets in Alberta prior to 1955 acquired control of British American in 1956. By 1965 it had 1040 outlets, most of which were formerly outlets for independent Canadian marketers.

The Shell Group similarly increased their outlets from 10 to 537 partly by buying former independent marketers.

Table 109.  
Province of Alberta—Relative Number of Retail Outlets  
"Cartel" and Other Marketers, 1955-1965

	1955	1957	1959	1961	1963	1965
Imperial Oil -----	<b>1054</b>	<b>987</b>	<b>965</b>	<b>873</b>	<b>870</b>	<b>803</b>
British American -----	572	<b>567</b>	<b>579</b>	<b>543</b>	<b>551</b>	<b>530</b>
Gr. West Distrib. (Red Head) -----	145	<b>143</b>	<b>137</b>	<b>120</b>	<b>115</b>	
Anglo-American (Purity 99) -----	239	264	266	248	<b>262</b>	
Royalite -----	6	48	97	117	<b>119</b>	<b>510</b>
Total B/A Royalite Group ----		<b>710</b>	<b>716</b>	<b>663</b>	<b>1047</b>	<b>1040</b>
Shell -----	<b>10</b>	<b>34</b>	<b>104</b>	<b>179</b>	<b>327</b>	<b>301</b>
North Star -----	150	202	206	<b>151</b>		
Canadian Oil (White Rose) -----	251	267	278	274	<b>271</b>	<b>236</b>
Total Shell Group -----	<b>10</b>	<b>34</b>	<b>104</b>	<b>330</b>	<b>598</b>	<b>537</b>
Texaco -----	<b>317</b>	<b>320</b>	<b>350</b>	<b>358</b>	<b>371</b>	<b>369</b>
Standard of B.C. -----				<b>8</b>	<b>8</b>	<b>8</b>
Pacific -----					22	71
Husky -----			23	29	46	83
U.F.A. Co-op -----	120	116	126	109	98	124
Department Stores -----		2	4	5	5	8
Other Non-Brands -----	64	77	79	90	106	101
<hr/>						
Total "Cartel" Subsidiaries ----	<b>1381</b>	<b>2051</b>	<b>2135</b>	<b>2232</b>	<b>2894</b>	<b>2757</b>
Total Other Marketers -----	1547	976	1079	872	277	387
<hr/>						
Total Outlets -----	2928	3027	3214	3104	3171	3144

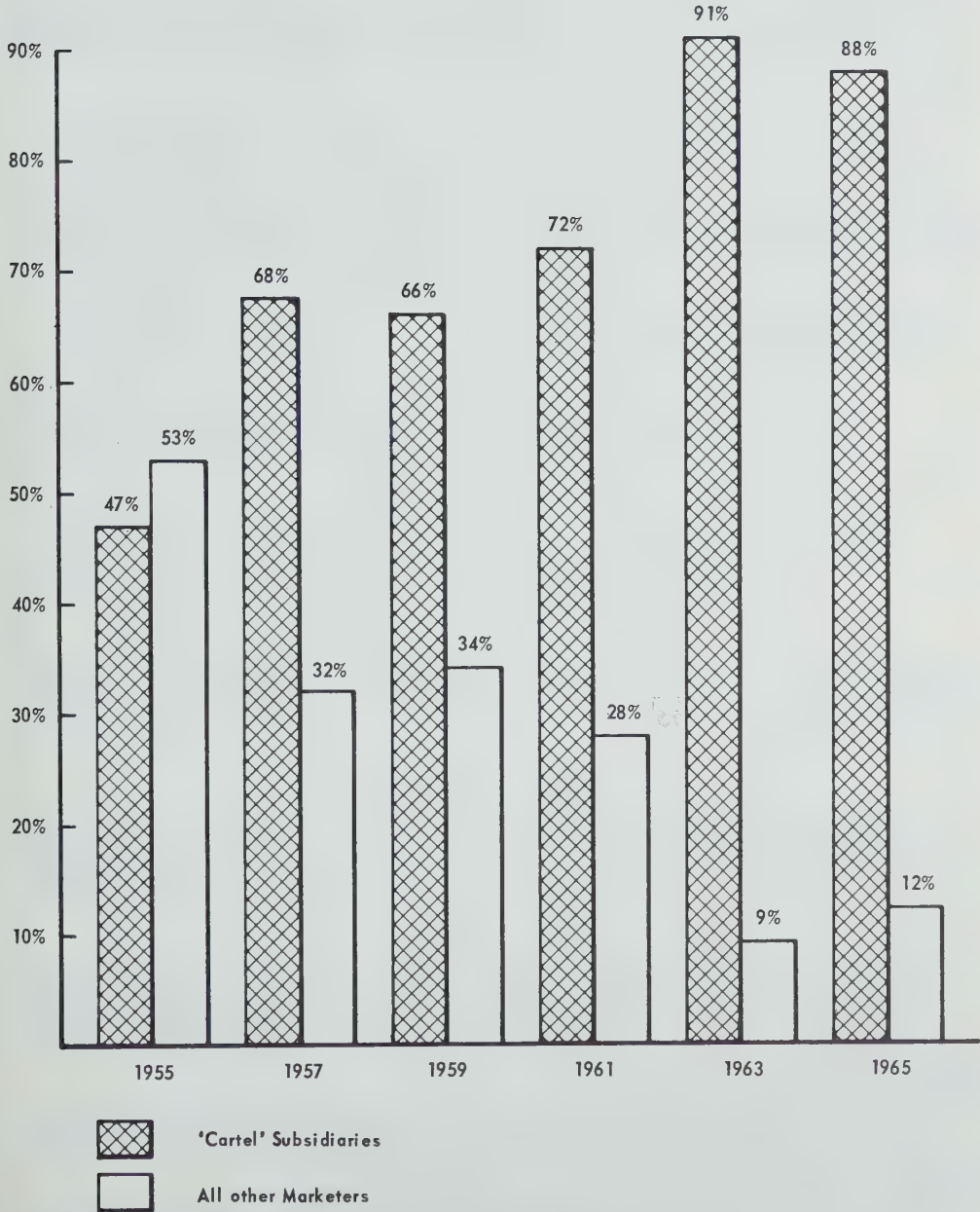
"Cartel" subsidiaries designated in bold face.

CHART 63

# 'CARTEL' SUBSIDIARIES vs ALL OTHER MARKETERS

PERCENTAGE OF RETAIL OUTLETS

ALBERTA 1955 - 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

## **Retail Outlets of "cartel" subsidiaries**

Imperial Oil was the first of the "cartel" subsidiaries to commence marketing in Alberta. It built service stations, bought good privately owned stations, "tied" other privately owned stations by contracts and developed its retail outlets over a long period of time.

Gulf Oil bought a share of the Alberta market by a series of acquisitions and mergers of local independent companies. It acquired the controlling interest in British American in 1956. British American's acquisition of Royalite through a share exchange was completed in 1964. British American acquired control of Anglo American in 1962, which marketed under the brand name Purity 99. In 1955 a controlling interest was acquired in Great-West Distributors which marketed under the brand name Red Head. It was merged in 1963 with Anglo American and two other marketing companies as Purity 99 Oil Ltd. which was in turn united with Royalite in 1965 under Royalite's brand.

In 1955 Shell Oil had only ten stations and one percent of the volume in Alberta. Ten years later it had 537 stations and 16.5% of the Alberta market. This growth was achieved partly by buying locations and erecting its own stations or by buying privately owned service stations and partly by buying out other Canadian marketers. North Star Oil Ltd. was acquired by Shell through a share exchange in 1960 and by 1963 the former North Star stations all bore the Shell brand. Canadian Oil was acquired by a Shell subsidiary in 1963 through a share exchange and was subsequently sold to Shell. The former Canadian Oil stations with their White Rose brand are being gradually phased out.

Texaco built service stations, bought good privately owned stations, "tied" other privately owned stations by contracts and was well established in the Alberta market by 1955 and neither its share of the market nor its number of outlets have changed very greatly in the ten years since.

Standard Oil of B.C. which markets under the Chevron brand entered the Alberta market relatively recently by developing eight service stations about 1961 and there has been no change in its number of service stations or share of the market.

As the "cartel" subsidiaries entered the Alberta market the Canadian companies engaged in refining, wholesaling or marketing which then existed have been bought out one by one by the "cartel" subsidiaries. Many of the better privately owned service stations have also been acquired by the "cartel" subsidiaries.

## **Retail Outlets of Other Marketers**

Pacific Petroleum entered the Alberta market in 1961. Since then it has been opening outlets rapidly and its market share is estimated to have increased from one percent in 1963 to 3.7 percent in 1965. Phillips Petroleum Company of the United States owned 45 percent of its common stock.

Husky Oil conducts operations both in the United States and Canada. It established a small refinery at Lloydminster, Saskatchewan in 1947. It commenced marketing gradually and by 1955 had only four stations in Alberta. However, in the six years between 1959 and 1965 its number of outlets increased fourfold and its market share almost doubled.

The United Farmers of Alberta Cooperative acquired Maple Leaf Petroleums, an Imperial Oil subsidiary in 1957. There has been little change in its number of outlets or share of market during this ten year period.

The "one stop shopping" concept introduced by shopping centers and the resulting change in consumer buying habits promoted Woodwards and Simpsons-Sears to construct and operate service stations adjacent to their department stores. In nine



years they have captured 1.9 percent of the total retail gasoline market through eight outlets. In 1965 each of these department stores had four service stations in Alberta. The department stores are experienced and efficient retailers in many lines other than gasoline, and their advent will have an impact on the traditional oil company approach to retailing.

During the period from 1955 to 1965

- (a) sales of automotive gasoline through retail outlets increased 65%
- (b) most existing independent Canadian refiners, wholesalers and marketers with chains of outlets in Alberta were bought up by "cartel" subsidiaries
- (c) the "cartel" subsidiaries continued to acquire good privately owned service stations and to develop their province wide chains of outlets to increase their representation and sales volume
- (d) the U.F.A. Co-op continued to exist and maintain its share of the market
- (e) Off-Brand retail outlets, such as Mohawk, which account for a small proportion of the market increased in number somewhat and also increased their sales volume,
- (f) two department stores began to operate service stations in conjunction with their shopping centres which quickly acquired exceptionally large sales volumes per outlet.

Due to oil company policies of subsidizing lessees and building too many service stations, the privately owned service station appears to be doomed to extinction. This is true notwithstanding the brand of gasoline sold.

In subsidiaries of the four cartel companies which market in Alberta

- (a) the number of lessee operated service stations is increasing,
- (b) the volume sold by lessee operated service stations is increasing,
- (c) the number of owned service stations is decreasing,
- (d) the volume per station of owned stations is decreasing.

Generally the only privately owned service station with high volume are old locations where some new economic development has suddenly and unexpectedly enlarged the business opportunity for the owner, or those rare locations where an owner has succeeded in operating for many years without accepting financial assistance from his oil company supplier. In either case the owner acquired the location many years ago when it was less attractive and has held on to it continuously since. The result is that most "owned" stations are old and haven't modernized in the same way that the oil companies have done with their lessee stations or their financed stations.

If the oil company can persuade an owner to modernize such an old station in a good location, he usually requires financing which is provided by the oil company and secured by a mortgage on the premises. The mortgage payments on a large mortgage extend over a period of 20 or 25 years which is usually close to the remaining business lifetime of the owner.

After the owner has struggled hard to meet his heavy payments of principal and interest on the mortgage for a few years, in competition with lessees around him whose rent is subsidized, the oil company usually offers to purchase.

By offering an attractive price which gives the owner a capital gain, combined with an offer by the oil company to lease the premises to the service station operator at a rental substantially less than the principal and interest payments on his mortgage, the owner can usually be induced to sell and to become a lessee.



Some former owners soon find they are unable to tolerate the ties and restrictions that limit and frustrate a lessee in the conduct of his business, and the initial rental inducement is soon wiped out by frequent rental increases so that the former owner abandons his lease and is replaced by a new lessee. In any case the service station has ceased to be privately owned and is now lessee operated.

Of the persons who still remain classified as "owners" of retail gasoline outlets the majority are not owners of "service stations" but are owners of "other businesses with some gasoline sales".

Such other businesses are usually in a location which does not have enough gasoline volume to warrant a service station but,

- (a) there is some demand for gasoline and it is a convenience to the public to have gasoline available at that location; and
- (b) the owner's livelihood is primarily provided by some other business in which the oil company is not interested and the gasoline sales simply supplement his income; and
- (c) the oil company is interested in supplying such volume as is handled by the outlet, but the volume is not sufficient to interest the oil company in acquiring the location.

The conclusions accordingly are:

- (a) oil companies own most service stations,
- (b) privately owned service stations that still exist are doomed to extinction; and
- (c) private owners will be found primarily in other businesses which have some gasoline sales with relatively small volume per outlet.

## CHAPTER 27. TURNOVER OF WHOLESALERS

### (1) Independent Wholesalers Decline

As privately owned service stations declined in number and in gallonage handled, and as the "Cartel" companies tied an increasing share of the market there was less opportunity for independent wholesalers and refiners. In the squeeze between declining markets and aggressive expansion by the "Cartel" many independent wholesalers and refiners saw the handwriting on the wall and sold out to the "Cartel".

Sales of taxable fuel oil have increased from 78,952,230 gallons in 1938 to 345,213,754 gallons in 1965 being an increase of 4.37 times. Only two of the "Cartel" subsidiaries were directly engaged in marketing in Alberta in 1938. Imperial and Texaco, and together they supplied less than 38% of the market.

The "Cartel" subsidiaries gradually took over former independents and enlarged their share of the market. For instance late in the 1930's the Texas Corporation acquired a controlling interest in McColl-Frontenac Oil Co. Ltd. and then merged this company with its Canadian subsidiary the Texas Company of Canada Limited.

Table 110 shows some of the takeovers of wholesalers and their retail outlets by the "Cartel" companies during the period 1955 to 1965.

By 1965 the subsidiaries of four of the "Cartel" companies supplied 87% of the market and the number of independent Canadian marketers and their market share had declined.

The sales of taxable fuel oil by wholesale marketers operating in Alberta is compared for the years 1938 and 1965 in Tables 111 and 112. During this period the market share of independent marketers declined from 62% to 12½ %.

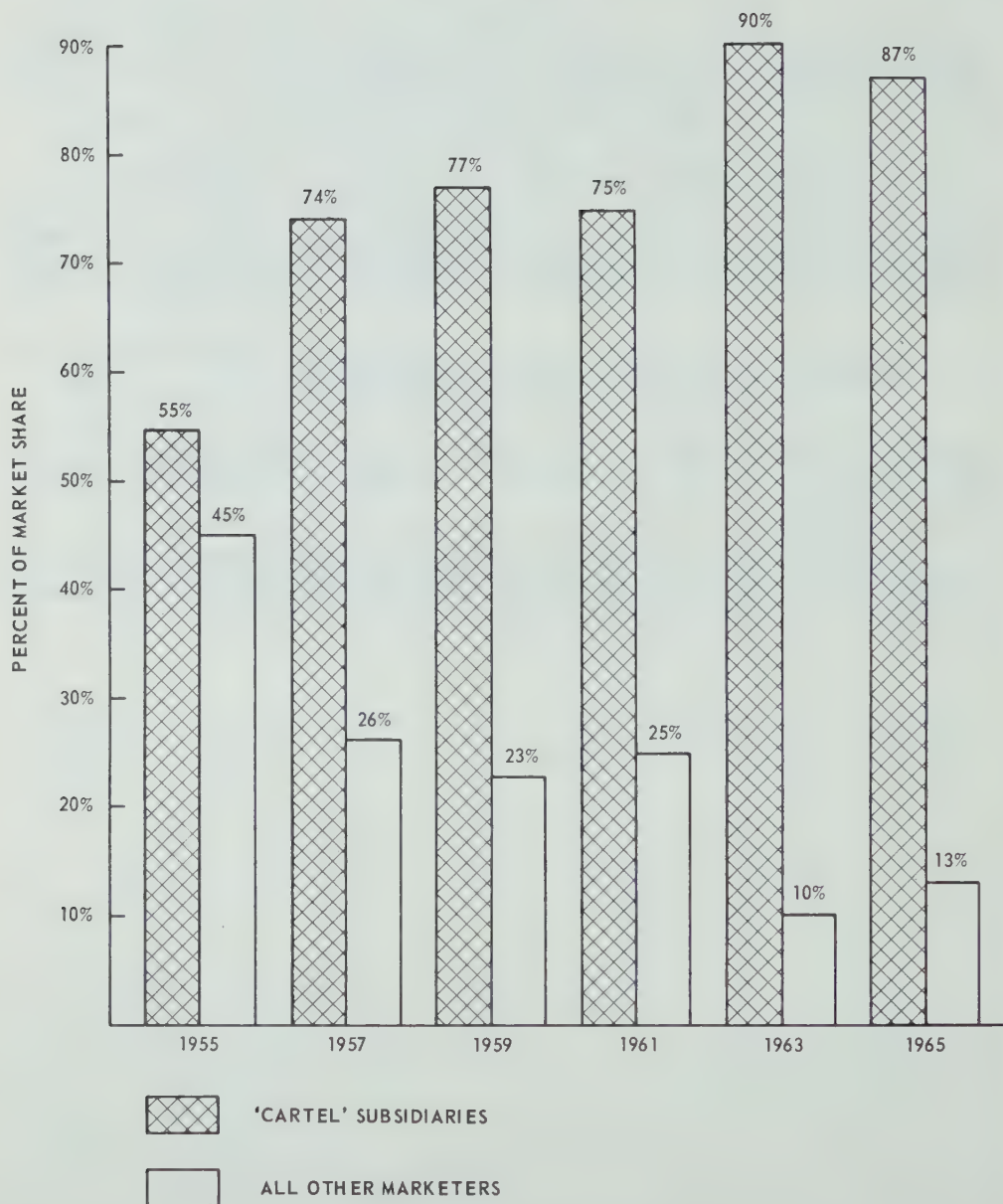
CHART 64

# 'CARTEL' SUBSIDIARIES vs ALL OTHER MARKETERS

PERCENTAGE OF MARKET SHARE OF GASOLINE SOLD

THROUGH RETAIL OUTLETS

ALBERTA 1955 - 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

## (2) "Cartel" Subsidiaries Buy Independent Canadian Refiners and Wholesalers and Increase Market Share

Independent Canadian refiners, wholesalers and marketers which operated prior to 1955 ceased to exist as they were acquired by and became "cartel" subsidiaries.

The U.F.A. Co-op is the only Canadian owned marketing organization existing in Alberta in 1955 which has continued its identity and has not been acquired by the "cartel".

The percentage of the market supplied by "cartel" subsidiaries increased from approximately 55% in 1955 to 86.8% in 1965.

The percentage of the market supplied by other marketers has declined from approximately 45% in 1955 to 13.2% in 1965.

Automotive gasoline sales increased 65% from 1955 to 1965. Thus although Imperial's percentage of market volume dropped from 40% to 29.7%, its gallonage sold increased 24%. Other "Cartel" subsidiaries whose percentage of volume was increasing had more spectacular increases in sales volume.

Table 110.

### Province of Alberta—Relative Percentage of Market Share of Gasoline Sold Through Retail Outlets "Cartel" and Other Marketers, 1955-1965

	1955	1957	1959	1961	1963	1965
	%	%	%	%	%	%
Imperial Oil -----	<b>40.0</b>	<b>35.8</b>	<b>33.4</b>	<b>31.4</b>	<b>29.8</b>	<b>29.7</b>
British American -----	20.0	<b>18.4</b>	<b>16.8</b>	<b>16.0</b>	<b>16.0</b>	<b>15.4</b>
Gr. West Distrib. (Red Head) -----	3.0	<b>3.3</b>	<b>2.9</b>	<b>2.7</b>	<b>2.4</b>	
Anglo-American (Purity 99) -----	7.0	7.3	6.2	5.5	<b>5.5</b>	
Royalite -----	0.3	2.9	3.7	4.4	<b>4.5</b>	<b>12.4</b>
Total B/A Royalite Group --		<b>21.7</b>	<b>19.7</b>	<b>18.7</b>	<b>28.4</b>	<b>27.8</b>
Shell -----	<b>1.0</b>	<b>2.7</b>	<b>5.8</b>	<b>8.4</b>	<b>11.9</b>	<b>11.1</b>
North Star -----	4.0	5.3	4.9	<b>3.3</b>		
Canadian Oil (White Rose) -----	7.0	6.2	6.0	6.5	<b>6.5</b>	<b>5.4</b>
Total Shell Group -----	<b>1.0</b>	<b>2.7</b>	<b>5.8</b>	<b>11.7</b>	<b>18.4</b>	<b>16.5</b>
Texaco -----	<b>14.0</b>	<b>13.8</b>	<b>13.5</b>	<b>13.3</b>	<b>13.4</b>	<b>12.4</b>
Standard of B.C. -----				<b>0.4</b>	<b>0.4</b>	<b>0.4</b>
Pacific 66 -----					1.0	3.7
Husky -----			1.2	1.7	1.5	2.2
U.F.A. Co-op -----	2.0	2.0	2.2	1.9	1.8	2.2
Department Stores -----		0.2	1.3	1.5	1.6	1.9
Other Non-Brands -----	1.7	2.1	2.1	3.0	3.7	3.2
	%	%	%	%	%	%
Total "Cartel" Subsidiaries --	<b>55</b>	<b>74</b>	<b>77.3</b>	<b>75.5</b>	<b>90.4</b>	<b>86.8</b>
Total Other Marketers -----	45	26	22.7	24.5	9.6	13.2
Total Sales -----	100%	100%	100%	100%	100%	100%

"Cartel" subsidiaries designated in bold face



Table 111.  
Alberta Wholesale Marketers — 1938 Sales of Taxable Fuel Oil

"Cartel" Subsidiaries	Gallons	% of Total	
Imperial Oil Ltd. ....	24,540,921	31.08	
Texas Co. of Canada Limited ...	5,211,753	6.60	37.68%
<b>Other Marketers</b>			
British American Oil Co. Ltd. ....	13,839,726	17.53	
North Star Oil Ltd. ....	5,057,960	6.41	
Great West Distributors Ltd. ....	4,745,815	6.01	
Maple Leaf Petroleum Limited ...	3,660,774	4.64	
Arctic Oil Company & Arctic Oil Sales Co. Limited .....	2,333,170	2.95	
Canadian Oil Companies Limited	2,296,549	2.91	
Union Oil Co. of Canada Limited	2,243,594	2.84	
Gas & Oil Products Ltd. ....	2,242,289	2.84	
Becker Oil Co. Ltd. & Becker Refineries Ltd. ....	2,192,355	2.78	
Lion Oils Ltd. ....	1,663,533	2.11	
Bell Refining Co. Ltd. & Bell Distributors Ltd. ....	1,366,829	1.73	
Oughton Brothers .....	970,359	1.23	
Alberta Hi-Way Refineries Ltd. ..	548,174	0.69	
H. M. Trimble & Sons .....	458,998	0.58	
McColl-Frontenac Oil Co. Ltd. ..	454,483	0.58	
All other companies .....	5,124,948	6.49	62.32%
<b>Total</b> .....	<b>78,952,230</b>		<b>100.00%</b>

Table 112.  
Alberta Wholesale Marketers — 1965 Sales of Taxable Fuel Oil

"Cartel" Subsidiaries	Gallons	% of Total
Imperial Oil Company Limited .....		
British American Oil Company Limited .....		
Royalite Oil Company Ltd. ....		
Shell Canada Limited .....		
Texaco Canada Limited .....		
Standard Oil Company of British Columbia Limited .....		
<b>Sub Total</b> .....	<b>302,125,433</b>	<b>87.5%</b>
<b>Other Marketers</b>		
Pacific Petroleum Ltd. ....		
Husky Oil Canada Ltd. ....		
Federated Co-operatives Limited .....		
United Farmers of Alberta Co-operative Ltd. ....		
Mohawk Oil Company Ltd. ....		
All other companies .....		
<b>Sub Total</b> .....	<b>43,088,321</b>	<b>12.5%</b>
<b>TOTAL</b> .....	<b>345,213,754</b>	<b>100.0%</b>

Source: Gasoline Marketing Enquiry Records.

Prior to 1938 only one "Cartel" subsidiary had a refinery in Alberta namely Imperial Oil with its refinery in Calgary. At that time there were other small refineries of various kinds including:

British American Oil Company at Coutts,  
Bell Refining Company Limited at Calgary,  
Gas & Oil Products Limited at Turner Valley,  
Lion Oils Limited at Calgary,  
Becker Oil Company at Turner Valley,  
A refinery in Lethbridge using Montana crude, and  
A refinery in Wainwright using Wainwright crude.

Professor T. Barna of The Monopolies Commission in Great Britain stated:

"All modern refineries in this country are owned by major petrol companies and, unlike on the continent, there are no independent refineries on any scale. The close control of retail outlets by leading suppliers of petrol has discouraged others from setting up refineries in the United Kingdom."

By 1965 the "Cartel" subsidiaries owned all refining capacity operating in Alberta and the Canadian independent refiners in this Province had been bought out or ceased to operate.



## PART 8

### OIL INDUSTRY PRICE STRUCTURE

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## PART 8

### OIL INDUSTRY PRICE STRUCTURE

#### CHAPTER 28. INTRODUCTION TO COSTING AND PRICING

##### (1) The Operator's Complaints About Price

In the consideration of the relationship between service station operators and oil companies, the Committee found that large numbers of service station operators voiced two complaints about price, namely

- (a) off brand outlets can buy the same quality of gasoline from the same refinery at a lower price which enables them to retail at a lower price; and
- (b) small commercial consumers such as taxis, cleaning plant delivery vehicles, and other commercial consumers who don't purchase as large a volume as the service station, can buy gasoline cheaper than the service station does.

In other words, the service station operator complains that the oil company sells for less, not only to other retailers, but to consumers who purchase smaller volumes.

Frequently the operator is able to produce invoices which appear to substantiate his claim. For instance, in one case the operator had a service station in a small city, and he also operated a school bus from his residence a few miles outside the city. He had two invoices from the same oil company. One invoice was addressed to his service station, covering 1,500 gallons of regular gasoline priced at 22.4c per gallon, plus tax. The second invoice was addressed to him personally at his residence address and covered 500 gallons of regular gasoline priced at 20.9c per gallon, plus tax. The price at his service station was 1½c per gallon more than the price for a smaller quantity delivered to his residence. Both deliveries were by tank trucks, and the distance to his residence was several miles further than the distance to his service station.

Another operator produced invoices to his service station from his oil company at the dealer posted tank wagon price of 19.8c. His friend, a trucker in the same community, purchased from the same oil company, and he had copies of invoices to the trucker. These invoices were at the posted commercial tank wagon price of 20.8c, from which a discount of 4.8c was shown on the invoice. The trucker's discount of 4.8c per gallon gave him an actual price of 16c per gallon as compared with the price being paid by the dealer of 19.8c per gallon for larger quantities.

The operators, in addition to their complaints about unfairness or discrimination in the prices at which they buy, also complained about oil company interference in their freedom to fix selling prices. They considered that once they had purchased the gasoline from the oil company, they should have freedom as independent business men to determine their own selling prices, free from oil company interference. They complained about a variety of oil company practices which directly or indirectly influenced the retail prices which could be obtained by the operator.

One of the greatest sources of irritation between oil companies and their operators was the system of "commission consignment," which, operators allege is instituted periodically by the oil companies. When commission consignment becomes applicable, the operator loses his freedom to determine his mark-up and has to accept, instead, a lower commission fixed by the oil company which either reduces the operator's profit or causes him to operate at a loss.

Fairness of price in the oil industry is an extremely complex subject. It was the prime concern of the British Columbia Royal Commission which studied the problem for three years, and it has been the subject of many other studies. Some understanding of the price structure is necessary before specific problems can be dealt with.

## (2) Integrated Industry Price Problems

In a fully integrated industry where the substance belongs to the same company from the time it is a raw material in the ground until the time that the finished product is purchased by the ultimate consumer, you have to go all the way back to the beginning to determine what costs are and you have the choice of many methods in computing costs, fixing prices and determining their fairness.

In an integrated oil company,

Division of Company		Product Produced
Exploration	produces	reserves of petroleum and natural gas
Production	produces	crude oil
Transportation (pipelines, ocean tankers, railway tank cars, tank trucks)	produces	availability
Refining	produces	refined products
Marketing	produces	customers

As the substance passes from division to division of the same company, each division incurs costs and contributes added value.

The fully integrated company, with the above major divisions, also owns and provides services which involve costs, and which may be used by one or more divisions. For instance, the accounting and computing services of the comptroller's department may be used for one purpose by the exploration division, for another purpose by the refining division, and for another purpose by the marketing division, etc. Such services involve costs which may or may not be directly charged to the divisions using them, and such services also contribute to the value added at every divisional level.

To properly determine costs of an integrated oil company you would have to analyze costs of all divisions at all levels, as well as costs of all services and how they are allocated.

The prairie grain farmer conducts an integrated operation which can be compared with that of the integrated oil industry. The farmer could divide his operation into distinct divisions such as the cultivating division, the seeding division, the harvesting division, and the sales division.

Like the integrated oil company, the farmer could calculate "costs" at any divisional level and fix a "price" at that divisional level, and he could transfer from one division to the other at that price. This is obviously a hypothetical exercise because there is no change of ownership at such levels and no necessity to designate a price.

Like the integrated oil company, the farmer would have the problem of allocating common costs and services between divisions. For instance, equipment like the tractor would be used by the cultivating division, the seeding division, and the harvesting division, and a judgment factor is involved in estimating and allocating these costs to divisions.

It is clear that the farmer makes no profit on any division of his operations until he is paid a price for his grain. If the price received exceeds all of his costs in all of the divisions of his operations, he has then made a profit which he could arbitrarily allocate between the various divisions which contributed to it.

The same situation exists in the oil industry.

No profit is realized until the integrated oil company parts with ownership of its products for a price.

The significant calculation is whether the price realized on the sale of products exceeds all costs incurred in every division of the integrated industry which contributed to the ultimate price.



It is obviously impossible for this Committee to conduct a study of an integrated oil company by analyzing the costs of all divisions at all levels, as well as the costs of all services, and how they are allocated. Many of the essential component parts of such a study are outside the Committee's terms of reference and beyond Alberta's jurisdiction.

A study on a national scale would be much more effective because all the divisions and all the services of fully integrated national subsidiaries of the international oil companies could be examined. However, even at this level there are severe limitations.

National subsidiaries have a great many dealings with their international parents which vitally affect both their costs and their prices. They may obtain crude from outside the national borders at one location and deliver crude outside the national borders at other locations.

The price of crude itself appears to have a world wide pattern unrelated to variations in producing costs, and it appears certain from the findings of the Federal Trade Commission in its study of the "International Petroleum Cartel" that such prices are not determined by any Canadian production costs. The refineries belonging to Canadian subsidiaries may use world wide patents held by their International parents or their subsidiaries on devices or processes held by them, paying license fees or royalties for their use, and such license fees or royalties, not negotiated at arms length, may have a substantial impact on national costs and prices. National subsidiaries may obtain financing services, management services, and consulting services from its international parent or its subsidiaries abroad. Subsidiaries of the same parent may deal with one another by buying and selling reserves, participating in joint ventures in exploration and production, buying and selling one another's shares and have any number of internal dealings which may materially affect the costs and the pricing of any such national subsidiary.

The international companies are so vast, and their operations vitally affect the national interests of so many governments, that in a sense they are practically immune to effective unilateral investigation or action by any one government.

When one division of an integrated company delivers what it has produced to the next division of the same company there is no change of ownership and no necessity to fix or state a transfer price. If it is stated or fixed, this may be done for a specific purpose, and the price so stated or fixed might not be the best for some other purpose. Such a price may or may not be established and in any case it is arbitrary and not determined by market forces of supply and demand and competitive bargaining in arms length transactions.

When the producing division of a "Cartel" company within an Arab country wishes to transfer the oil it has produced to another division of the same company outside that Arab country (such as its transportation division, a refining division, or marketing division), then, as there is no change of ownership, there is no need for a price to be stated or expressed so far as the company is concerned. However, as the Arab government wishes to collect a royalty, it is necessary to state a price which can be used for the purpose of calculating royalties.

Similarly in Alberta, when the producing division of a "Cartel" subsidiary is transferring the oil it has produced to its refining division within the Province, there is no need so far as the company is concerned to state or express a price. However, for the purpose of paying royalties to land owners or to the government a price is required for the purpose of calculating royalties.

Also in Canada, a percentage of the oil is produced by independent producing companies not engaged in refining or marketing. When this percentage of independent oil is purchased to join the main stream of oil produced by the integrated companies, a purchase price must be fixed for this purpose. In the world wide picture, the production of independent oil companies is a small fraction, and the majority of the world's oil moves from production divisions to refining divisions of the same integrated companies without any change of ownership. Accordingly, for the majority of the world's oil, the "prices" on such transfers are simply book entries which do not reflect bargaining or arms-length transactions.



After refining, a majority of the world's refined products are disposed of by transfers from refining divisions to marketing divisions of the same integrated company where there is still no change of ownership, and prices are not needed, and are frequently not expressed.

A small percentage of refinery production is actually sold to independent jobbers or wholesalers so for this purpose a price is required. These purchasers are totally dependent upon the integrated companies for their source of supply. They provide competition at the retail level for service station operators who are similarly dependent on the same integrated companies for their source of supply. However, the great majority of refined products is not sold at the refinery level, but is simply transferred from the refining division to the marketing division of the same company.

The integrated company which has explored, produced, transported, refined and marketed, only gives up ownership and possession when it finally sells to a purchaser. It is at the point of sale that money comes in which must pay the costs of all divisions of the integrated oil company and which provides the total profit available to allocate between the various divisions. No costs are recovered and no profit is made by any division of the integrated company until the point of sale is reached.

The point of sale which accounts for a very large proportion of the oil company profits, is where the oil company sells to the service station operator.

Within an integrated company, if it was desirable to increase the share of profits allocated to a single division, such as the refining division, this can obviously be done internally by reducing the transfer price of crude coming in from the producing division or by increasing the transfer price of products going out to the marketing division. The profits of this single division could similarly be affected by increasing or decreasing the charges to it for its proportion of company services which it uses such as accounting, financial, management, etc. For any particular question and answer the oil company accordingly has a multiple choice of what figure to use depending on many variables, such as, where in the divisional structure you start, what assumptions you make, and what result you would like to demonstrate.

The problem of determining cost and price would be difficult enough in such an integrated industry if there was only one ultimate product and all costs of whatever nature could be charged to that product. However, the oil industry starts out with one raw material from which it ultimately produces and sells many products.

Consequently, if you are trying to determine the cost and the price of any particular product, this involves allocating to that product, portions of the costs incurred at various divisional levels and portions of the services rendered to those divisions, whether charged for or not.

Although it is apparent that the difficulties with cost and price are enormous, the Committee considered it should look at the figures in common usage by the industry. It was obvious the figures we could obtain would not be complete or precise, but the Committee hoped they might contribute to an understanding of the problem.

What has all this cost and price theory to do with the service station operator and his complaints about his oil company's pricing policy?

When the refining division of a company delivers gasoline to its marketing division, it appears obvious that there is one cost for that gasoline at that point, whatever that cost may be.

If one class of customers for gasoline obtains a better price from the marketing division than another class of customers for gasoline, there are various possible explanations. For instance, the saving on incremental gallons produced by the refining division at lesser "cost" may be allocated to one class of customer whose purchases makes the production of incremental gallons possible. Another explanation is that the cost of using one channel of sales through the marketing division is less than the cost of using another channel of sales through the same division and this cost saving is made available to the customer.

The marketing division sells several products incurring costs which have to be allocated between the different products. The same product, such as gasoline, is sold through different channels to different markets, and the costs of using different channels have to be compared.

One item of marketing cost like brand name advertising may help the sale of road asphalt or industrial lubricants as well as the sale of gasoline, and a judgment factor may be involved in allocating the proper proportion of the cost to each product. Another item of marketing cost, like credit and accounting, may have been incurred partly for sales through one channel to retail dealers and partly for sales through another channel to industrial and commercial consumers. To compare the cost of selling gasoline through one channel of distribution to a commercial consumer with the cost of selling gasoline through another channel of distribution to a retail dealer involves allocation of common costs. If costs of handling through one set of channels are cheaper than handling through another set of channels, it may be fair that there should be a price differential for the same product to different purchasers.

## CHAPTER 29. CRUDE OIL COSTS AND PRICES

### (1) The Price of Crude Oil is an Important Element in the Price of Refined Products.

The B.C. Royal Commission found that the "price" at which crude oil was supplied to B.C. refineries was approximately \$3.00 per barrel, and that based on this "price" the cost of a barrel of refined products was approximately \$4.00 per barrel. (This is a crude "price" of 8.57c per gallon, and a refined products cost of 11.43c per gallon, being a refining cost of less than 3c per gallon.)

The intergrated oil industry apparently allocated approximately  $\frac{3}{4}$  of the cost of every barrel of refined products to cost of crude (being the costs of its exploration, producing, and transporting divisions) and  $\frac{1}{4}$  of the cost to its refining division.

From the point of view of the consumer

- (a) if the cost of refining could be cut in half, this would only reduce his purchase price from \$4.00 to \$3.50, or 12½ %;
- (b) if the cost of a barrel of crude was cut in half this would reduce his cost three times as much from \$4.00 to \$2.50 or a reduction of 37½ %.

In Alberta the cost of a gallon of crude appears to be about 3c, and it is tranferred to the refinery at a "price" of 7½ to 8c.

It is obvious that the price of crude is a very important element in any study of price in the integrated industry.

### (2) Foreign Export Crude is Produced at Low Cost

The cost of crude from some fields is very low, e.g. in Kuwait the cost is about 6c per barrel, and in some other countries the cost has been reported as little as 2c a barrel.

The cost of export crude oil is made up of two elements,

- (a) the costs of exploration, production and transportation,
- (b) royalties and taxes payable to exporting countries.

As a general rule payments to exporting countries considerably exceed the costs of producing the oil.

Table 113.

#### Cost of One Barrel of Oil — Kuwait

	(1966) \$ per bbl.
Exploration, production, and gathering .....	0.041
Transportation to export terminal .....	0.0066
Amortization of capital .....	0.015
Total cost of producing .....	\$0.0626
Royalty and other taxes .....	0.211
Income tax .....	0.591
Total Government Receipts .....	0.802
Total cost per barrel .....	\$0.8646
Export "price" per barrel .....	\$1.59

Source: Gasoline Marketing Enquiry Records.

Table 114  
Cost of One Barrel of Oil — Iran

		(1964) \$ per bbl.
Exploration, production and transportation to export terminal .....		0.20
Marketing .....		0.005
Total cost of producing .....		0.205
Royalty .....	0.2225	
Income tax .....	0.6006	
Total Government Receipts .....	0.8231	0.8231
Total cost per barrel .....		\$1.0281
Export "price" per barrel .....		\$1.78

Source: Gasoline Marketing Enquiry Records.

Table 115  
Cost of One Barrel of Oil — Venezuela

Average Costs of all producers in all producing areas whether high cost or low cost			(1965) \$ per bbl.
Exploration, production and transportation to export terminals .....			0.47
Refining, sales, and other costs and expenses .....			0.07
Total costs .....			0.54
The above total costs may be broken down			
Operating cost .....	0.38		
Depreciation and amortization .....	0.16		
Total costs .....	0.54		
Royalty .....	0.47		
Income and other taxes .....	0.482		
Total government receipts .....	0.952		0.952
Total cost per barrel .....			\$1.492
Export "price" per barrel .....			\$2.80

In Venezuela the minimum royalty rate is 16 $\frac{2}{3}$ % of the value of the crude produced, which is valued on a formula based on Texas crude prices. Some producers pay more than the minimum 16  $\frac{2}{3}$ % rate so the average rate for the country is over 17%.

Source: Gasoline Marketing Enquiry Records.

### (3) High Government Revenues of Exporting Countries are the Largest Element of Producing Cost

Historically, the majority of the world's exportable crude has originated from the Arab countries and from Venezuela. Most of this oil is produced and owned by the "Cartel" companies. When they export it it is acquired by other divisions or subsidiaries of the same companies at a "price" fixed by the "Cartel" companies. The posted export price does not correspond to the cost of producing the oil.

The Arab countries and Venezuela formed an organization called "Organization of The Petroleum Exporting Countries", frequently referred to as OPEC. OPEC helped these countries to formulate common policies in dealing with the "Cartel" companies.

Until a few years ago it was a common pattern in the exporting countries for the government to collect royalties, income taxes, and make up payments which together totalled 50% of the exporting oil companies' net profit. The oil companies' net profit was determined by deducting the cost of producing from its posted export price.



## Kuwait

\$ per bbl.

Posted Export price .....	1.59
Deduct cost of producing .....	0.0626
Net profit of oil company .....	\$1.5274
Kuwait collected royalty plus income tax plus makeup payment totalling 50% .....	0.7637
The oil company retained 50% of its net profit .....	0.7637
Net profit of oil company .....	\$1.5274

Effective in 1964, OPEC, on behalf of its member countries, negotiated a "Royalty Expensing Agreement".

Previously, the royalty collected was applied on account of the government's 50% income tax. Under the new agreement the royalty is in addition to the government's 50% income tax, but the oil company's net income is reduced by allowing the companies to treat the royalties paid as an expense for purposes of computing their net income.

Briefly, the terms of the OPEC Royalty Expensing Agreement are:

1. The royalty in crude oil would be expensed to the extent of 12½% of posted prices at export ports within each country.
2. The companies would be specifically allowed a 0.5 cent per barrel marketing allowance off posted prices.
3. The companies would also be allowed a basic 8½% discount off posted prices in computing taxable income in the first year of the agreement (1964). In addition, the companies agreed to raise their payments in 1965 and 1966 by progressively reducing the 8½% basic discount off posted prices. The amount of the reduction varied according to the gravity of the crude; for heavy crudes of 27 gravity and below the 8½% allowance was reduced to 7½% in 1965 and 6½% in 1966. For lighter crude oil (above 27 gravity), the amount of the discount increased with the higher gravity of the crude. Thereby, the allowance for light crudes was above 7½% and 6½%, in 1965 and 1966 respectively. This provision meant that heavy crudes would get a bigger progressive reduction in the discount—and hence a bigger increase in its tax—than light crudes. No specific reductions in the discounts were provided for in the agreement beyond 1966.

Using a crude oil posted at \$1.78 such as 34 gravity Iranian crude at Bandar Mashur, and assuming a 20 cent per barrel producing cost, the profit split compares under the old and new agreements in the following way:

	old terms	new terms
	\$	\$
Posted price .....	\$1.78	\$1.78
Discount (8½% of posting) (1964) .....		0.1513
Sales price by producing companies to affiliates .....	1.78	1.6287
Deductions:		
Producing cost .....	0.2000	0.2000
Marketing allowance .....	0.0178	0.0050
12½% royalty .....	0.2178	0.2225
Total taxable income .....	1.5622	1.2012
50% income tax .....	0.7811	0.6006
Government Royalty .....	0.2225	0.2225
Government Income Tax .....	0.5586	0.6006
Total Government Receipts .....	\$0.7811	\$0.8231

Please note that under the old agreement, oil companies "deducted" royalties from income tax payments.

Under the new agreement, by adding royalties and income taxes, and by allowing income to be reduced by expensing of royalties, OPEC Member Governments' per-barrel receipts increased within a range of about 3.7 to 5.3 cents in 1964; from 4.3 to 5.6 cents in 1965, and from 4.8 to 5.8 cents in 1966.

At the beginning of 1968, OPEC's XV Conference decided to accept a last offer submitted by the oil companies providing for the progressive elimination of the percentage allowance and of the gravity differential allowance over a number of years ending after 1971 and 1974, respectively.

Table 116.  
Comparison of Government Receipts — Per Barrel

Country	Posted Export Price*	Royalty Rates	Royalty Per Barrel		Income Tax, Area Rentals, Make Up Pmts.	1966 Per Bbl. Receipts
Kuwait .....	\$1.59	12.5%	\$0.20	+	\$0.602	\$0.802
Saudi Arabia .....	1.80	12.5	0.225	+	0.639	0.864
Iran .....	1.73	12.5	0.216	+	0.663	0.879
Iraq .....	1.72	12.5	0.215	+	0.605	0.820
Qatar .....	1.95	12.5	0.244	+	0.633	0.877
Libya .....	2.21	12.5	0.276	+	0.594	0.870
Venezuela .....	2.80	16.67	0.467	+	0.485	0.952

	Average Well Head Price	Range of Royalty Rates	Average Royalty Per Bbl.		Land Acquisition and Rents	1962-66 Average Receipts
		8.0%				
Alberta .....	\$2.60	16.67	0.29	+	0.11	\$0.40

\* The Export prices quoted are at the port and for the gravity of crude shown below:

Country	Port	Crude	Gravity
Kuwait	Mina-Al-Ahmadi		31
Saudi Arabia	Ras Tanura	Arabian Light	34
Iran	Abadan	Iranian Light	34
Iraq	Basrah		35
Qatar	Umm Said		41
Libya	Es Sider	Libyan	39
Venezuela	Puerto La Cruz	Officina	35

Source: Gasoline Marketing Enquiry Records.

In an article entitled "Oil Revenues of Host Governments", published in **Petroleum Press Service**, September 1966, page 327, it was pointed out that payments to the governments of the principal oil exporting countries have been increasing year by year for 20 years. This article reads in part as follows:

Seven producing countries in the Middle East—Kuwait, Saudi Arabia, Iran, Iraq, Qatar, Abu Dhabi and Bahrain—received about \$2,300 million in income tax and royalties in 1965. About 95 per cent of the total went to the first four. Payments were nearly 10 per cent higher than in 1964 and more than double the total eight years ago; they have risen each year during the past twenty years—even following the 1960 cut in posted prices, the effect of which was offset by the production of larger volumes and by reductions in operating costs. Outside the Middle East, payments to the Libyan Government in 1965, at \$422 million, were more than double those for the previous year, owing to increased production and to the application of the royalty expensing agreement. Payments to Venezuela in 1965 amounted to \$1,128 million.

Revenues may also be considered in terms of the return to the government in cents per barrel of oil exported. Thus when posted prices fell but larger volumes were sold the government's total take rose but not the per barrel return. OPEC members have differing attitudes on this question. Middle East governments, with their immense crude oil reserves, are generally speaking more concerned with the absolute amounts received, which can be devoted to immediate economic development. Venezuela, with only enough oil for 12 years at present rates of output, and with virtually no exploration going on to find fresh reserves, prefers to concentrate on getting the highest return per barrel and is apparently resigned to stagnation in export volumes.

The drop in Venezuela's per barrel revenue in 1964 and again in 1965 is chiefly attributed to lower realizations. Income taxes are related to the actual selling prices whereas in the Middle East they are related to posted prices, which insulates the governments' revenues from low market prices. Per-barrel payments in Venezuela are still higher than in the Middle East, but the difference has been narrowing in recent years dropping from 22.1 cents in 1963 to 17.8 cents in 1964 and to 17.3 cents in 1965.

The return per barrel for each country or region depends partly on the price its oil commands for locational reasons or because of gravity. Thus the average payment per barrel of exports from the Middle East has been adversely affected by a change in the composition of its exports. Heavy crudes, with lower posted prices, have been increasing their share of the total. Crudes below 30° API, which in 1958 accounted for less than three per cent of total Middle East production, now account for over 10 per cent. They come principally from Safaniya and Khafji, offshore Saudi Arabia and the Neutral Zone. The weighted average gravity of Middle East crude exports declined annually from 33.2° in 1958 to 32.6° in 1961, at which level it has remained. The weighted average posted price for Middle East exports has declined by 1.5 cents since 1961.

In a subsequent article entitled "Royalties and Revenues", in **Petroleum Press Service**, July 1967, page 246, it points out a continuing rise in the oil revenues of exporting countries and in per barrel receipts. This article reads in part as follows:

The percentage rise of just over 16 per cent was the largest since the post-Suez recovery in 1958, and compares with a rise of just under 10 per cent in 1965. The steep rise in 1966 was partly due to the increase in the volume of exports—which went up 12.3 per cent to over 9 million b/d in 1966—and partly to higher payments per barrel.

Receipts per barrel of oil exported rose to 81.4 cents for the Middle East as a whole, up 2.7 cents or 3.4 per cent over 1965. Reflected in the area totals are the much higher payments to Abu Dhabi consequent on a 30 per cent rise in exports and the conclusion of new agreements with Abu Dhabi Petroleum and with Abu Dhabi Marine Areas; payments almost trebled in 1966 to nearly \$100 million and per barrel payments went up from about 33 cents for 1965 to 75 cents for 1966. (The larger role played by Abu Dhabi also caused a slight rise in the average posted price for Middle East crudes, to \$1.696, and in the average gravity, to 32.7°, together with a decline in the average sulphur content, to 1.87 per cent.)

Another factor in the rise in the per barrel receipts was the reduction in the allowance off posted prices under the OPEC royalty expensing agreement, from 7½ per cent in 1965 to 6½ per cent in 1966. The effect of the allowance change was to give about \$14½ million in additional revenue to the three countries where the formula applied in 1966, Saudi Arabia, Iran and Qatar.

The acceptance of the OPEC royalty expensing agreement by Kuwait early this year and its retrospective application to the operations of the Kuwait Oil Company will, together with other cost adjustments, raise payments to the government by about \$97 million over the three years, of which about \$28 million for 1964, \$32 million for 1965, and \$37 million for 1966. It will raise Kuwait's per barrel receipts for these years by something of the order of 3½ cents per barrel in the first year, 4 cents in the second and 4½ cents in the third.

Table 117.

Government Oil Revenues\* (Million \$)

Year	Kuwait*	Saudi Arabia	Iran	Iraq	Other†	Total M.E.	Libya	Venezuela
1956	\$310	\$300	\$153	\$193	\$ 47	\$1,003		\$ 738
1957	338	323	213	137	57	1,068		968
1958	425	310	247	224	72	1,278		993
1959	405	315	263	243	69	1,295		926
1960	465	355	285	266	70	1,441		877
1961	464	400	301	266	70	1,501	\$ 3	938
1962	526	451	334	267	75	1,653	39	1,071
1963	557	502	398	325	83	1,865	109	1,106
1964	626	561	475	353	96	2,111	197	1,122
1965	639	653	534	375	119	2,320	371	1,125
1966	680	805	607	394	208	2,694	476	1,059

\* Retroactive payments where possible are allocated to the year applicable. Additional payments to Kuwait for 1964, 1965 and 1966 have however not been included.

† Qatar, Abu Dhabi, Bahrain.

Source: Gasoline Marketing Enquiry Records.



Table 118.  
Government Receipts (cents per barrel of exports)

Year	Kuwait*	Saudi Arabia*	Iran	Iraq	Other†	Total M.E.	Libya	Venezuela
1956	76.5c	82.9c	84.3c	89.5c	85.3c	82.3c		87.2c
1957	79.6	88.2	86.8	93.1	91.3	85.7		103.0
1958	81.7	81.7	89.0	88.9	92.4	84.8		111.6
1959	77.8	75.8	83.6	82.4	89.1	79.8		98.4
1960	76.4	75.0	80.1	78.6	88.7	77.7		89.2
1961	74.4	75.5	75.8	76.5	87.2	75.8	62.7c	92.9
1962	74.8	76.5	74.5	76.7	83.4	75.9	64.7	92.9
1963	74.3	78.7	79.7	80.7	79.2	77.9	65.0	98.6
1964	77.0	82.0	81.8	80.1	58.4	77.6	62.9	95.4
1965	79.1	83.0	82.9	81.7	57.7	78.7	83.8	95.0
1966	80.2	86.4	83.2	81.3	79.5	81.4	87.0	91.2

\* Including half Neutral Zone.

† Qatar, Abu Dhabi, and Bahrain.

Source: Gasoline Marketing Enquiry Records.

#### (4) There is a Wide Margin Between Crude Cost and Crude Export Price

If you look at the essence of an export transaction, what has occurred is a transfer of possession from the producing division of the "Cartel" company within the producing country to another division of the "Cartel" company outside the producing country. Using Kuwait as an illustration, although an export price of \$1.59 is expressed in connection with this transaction, the actual cost is simply 6c, being the cost of production, plus 80c being the payment to Kuwait before the oil can be taken out. The remainder of the posted or expressed export price is simply a book entry, or an unrealized profit, because the same company owned the oil both before and after this transaction and there wasn't any sale.

In a book entitled "World Crisis in Oil" by Harvey O'Connor published in New York in 1962 it is stated at page 273

"... that in the Near East it took only one year to realize 100% on an investment in oil, whereas in Venezuela it took 1.2 years, and in the United States 3.1".

Similarly in Alberta, the producing division of a "Cartel" subsidiary which produces oil at a cost of \$1.04 per barrel, or 3c per gallon, transfers that oil to the refining division of the same company at a "price" of \$2.65 a barrel or 7½c per gallon.

No sale has taken place because ownership of the oil remains in the same company. The "price" so established is simply a book entry which can be used for the purpose of calculating royalties to the mineral owner or the government.

Table 119.  
Comparison of Crude "Cost" and "Price"

Country	Cost of Producing	Gov't Royalties Taxes and Payments	Total Cost to Oil Co.	Oil Co's Posted Export Price
Kuwait '66	\$0.0626	\$0.802	\$0.8646	\$1.59
Iran '64	0.20	0.8231	1.0231	1.78
Venezuela '65	0.54	0.952	1.492	2.80

Source: Gasoline Marketing Enquiry Records.

If you check crude prices quoted by "cartel" companies at various points in the world, these prices appear to be uniform at each such point for the same quality of crude. Even though costs may vary greatly, export "prices" are uniform, and there is no indication of price competition.



Table 120.  
Crude Export Prices Per Barrel

Exporting Country & Port	Abadan Iran	Bandar Mah-Shahr Iran	Mina-al-Ahmad Kuwait	Ras Tanura Saudi Arabia	Puerto la Cruz Venezuela	Cardon Venezuela
Gravity of crude or product	31 31.9	34 34.9	31 31.9	31 31.9	35 35.9	29 29.9
Company	Export Price Per Barrel					
Esso .....	\$1.58	—	\$1.59	\$1.59	\$2.80	\$2.40
Gulf .....	1.58	—	1.59	—	2.80	2.40
Texaco or (Caltex) .....	1.58	\$1.78	—	1.59	—	2.40
Calif. Standard or (Caltex) .....	1.58	1.78	—	1.59	—	—
Mobil .....	1.58	1.78	1.59	1.59	—	—
Shell .....	1.58	1.78	—	—	2.80	2.40
B.P. ....	1.58	1.78	1.59	—	—	—

Prices are per barrel at the ports indicated for the gravities shown.

As a general rule in all countries there is a 2c per barrel differential in price for each degree of gravity below and above the posted prices for gravities not shown.

Source: Platt's Oilgram Price Service — Crude Oil Supplement.

## (5) Crude Export Prices are Usually Uniform with No Indication of Price Competition

The Staff Report to the Federal Trade Commission of the United States entitled "The International Petroleum Cartel" concluded that the prices of crude, world wide, were determined by the "cartel", that the "cartel" has a virtual monopoly on the production of crude for export which enables it to maintain the prices fixed, and that there is essentially no competition in crude prices.

When the Trans-Arabian Pipeline (Tapline) was completed from the Persian Gulf to the shore of the Eastern Mediterranean this raised the question as to the proper price for Arabian crude oil on the Mediterranean as compared to the Persian Gulf.

In the report to the Federal Trade Commission by its Staff on the International Petroleum Cartel in Chapter X the report read as follows:

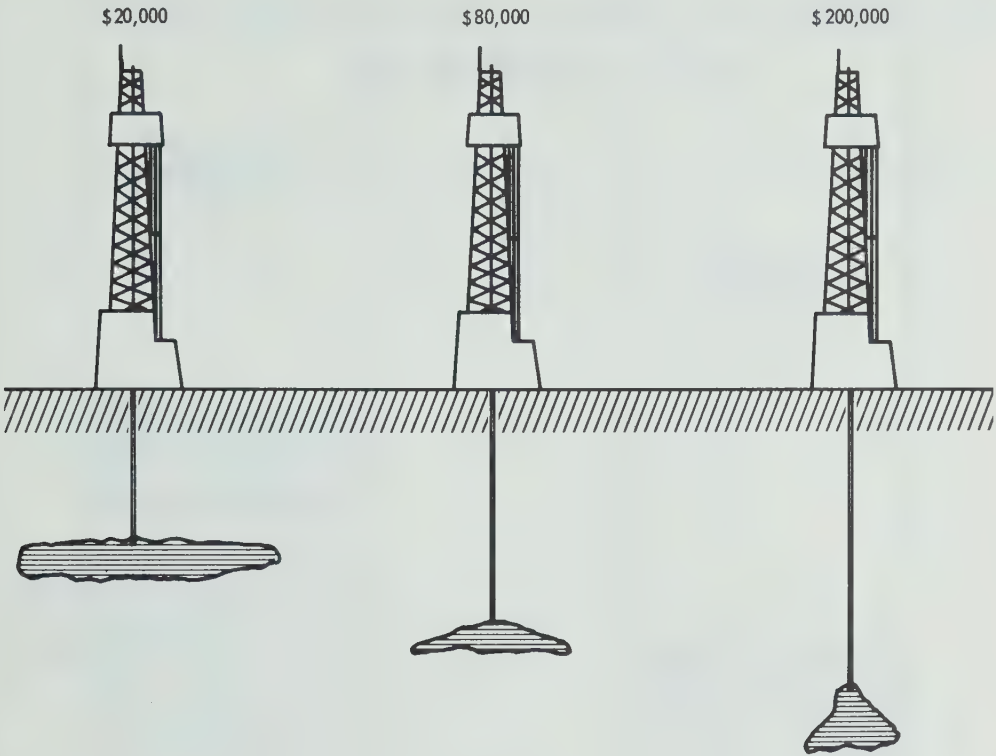
"The answer depended upon whether the four owners of Aramco and Tapline — Standard of California, Texas Co., Standard of New Jersey, and Socony—passed on to the purchaser part of the transportation savings resulting from the use of the 1,000 mile long pipeline (with its 300,000 barrels of daily capacity) in place of the 7,000 mile round trip tanker haul around the Arabian Peninsula via the Suez Canal. In October 1947 W. S. S. Rodgers, Chairman of the Board of the Texas Co. estimated the tanker costs from the Persian Gulf to the Mediterranean to be 45-58¢ per barrel and pipeline costs at about 18¢. In other words the pipeline would effect a saving in transportation costs from the Persian Gulf to the Mediterranean of about 30¢ per barrel."

All of the companies started with the Persian Gulf price, "and in effect added, at their own intra-company rates, the tanker charges from Ras Tanura to the Eastern Mediterranean, including the Suez Canal toll charges. This had the effect of charging European importers the same delivered price for Arabian crude shipped from the pipeline terminus at the Eastern Mediterranean as they formerly paid for crude hauled all the way around the Arabian Peninsula—thereby making the pipeline transportation charge equivalent to that of a ten day tanker haul." "This adoption of tanker charges from Ras Tanura to the Mediterranean as the pipeline charge for Tapline meant, of course, that none of Tapline's savings in transportation were passed on to consumers."

The best evidence of what certain oil companies might do in designated circumstances is what the same companies have done in the past in similar circumstances.

### (6) Cost of Crude in Alberta

The cost of an oil well varies greatly due to depth and other factors. A well in Alberta may cost as little as \$20,000 or as much as \$200,000.

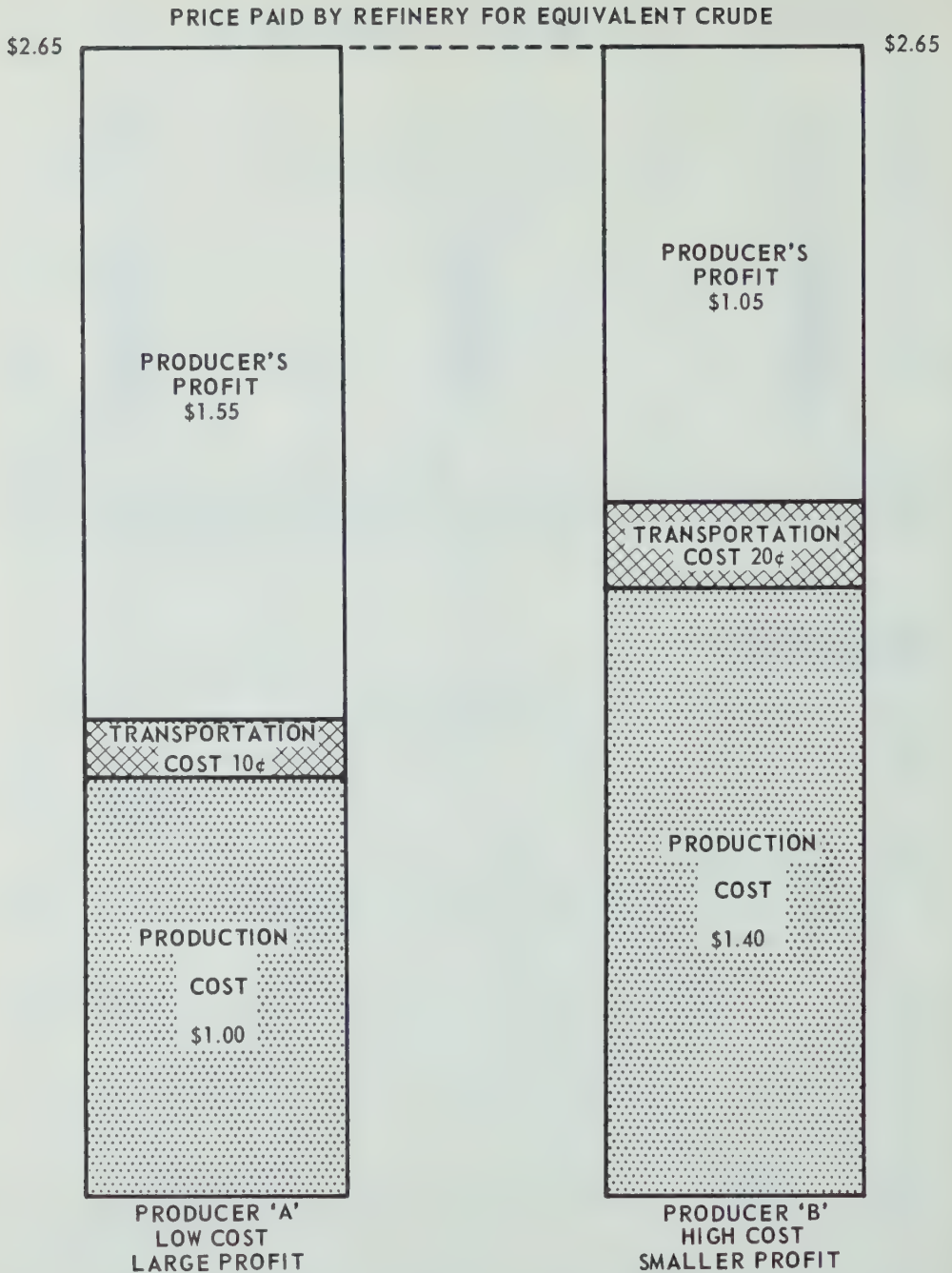


If each of the three wells produces crude of equivalent quality:

- (a) the sale price per barrel is approximately the same,
- (b) the cost of producing a barrel is widely different.

The price fixed for crude oil appears to bear no apparent relationship to its cost.

CHART 65



A refinery pays approximately the same price to each producer of crude of equivalent quality.

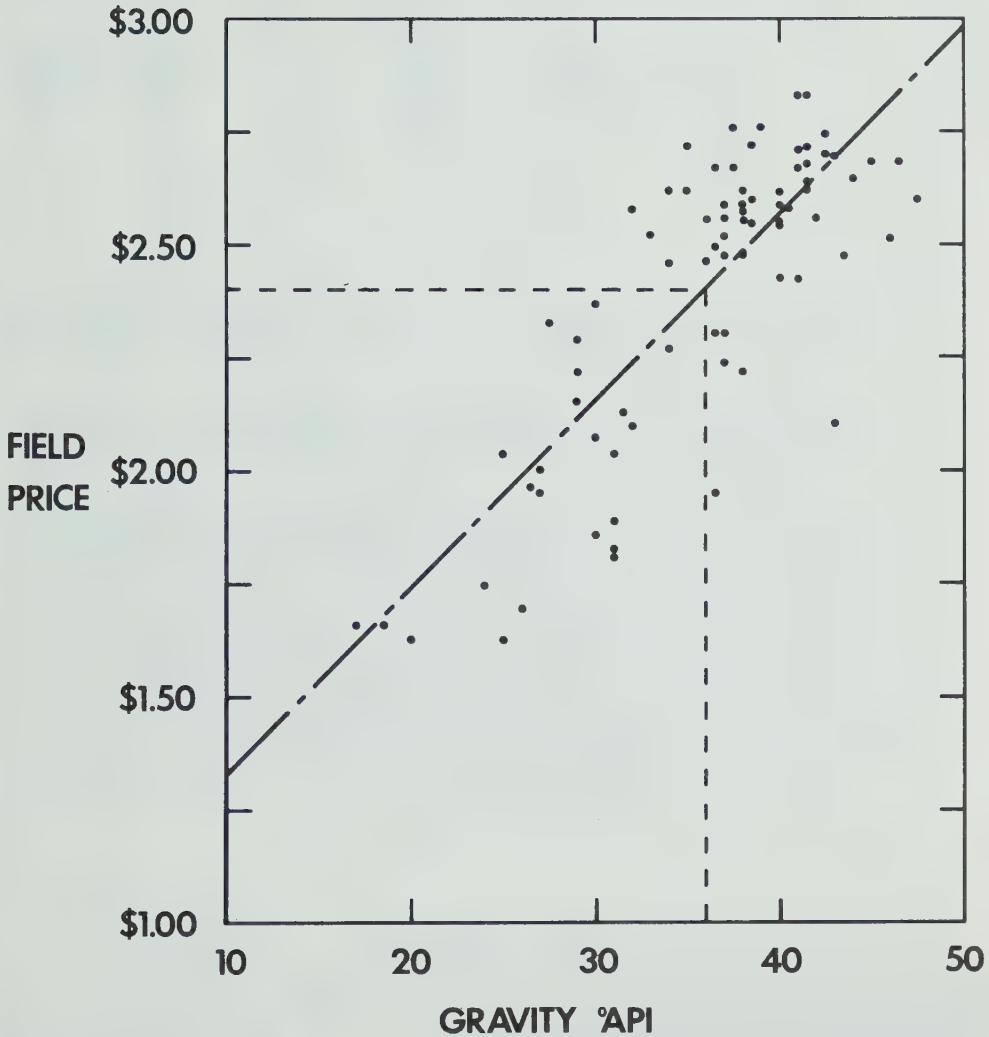
The costs of producing crude oil vary between different fields producing from different depths.

Transportation costs from producing areas to the refinery vary with the distance and with the mode of transportation used.

Assuming crude of equivalent quality, a producer whose costs of production and transportation are high will have a smaller profit than a producer whose costs of production and transportation to the same refinery are lower.

CHART 66

## FIELD PRICE VS °API GRAVITY OF CRUDE OIL IN ALBERTA - 1965



The higher the specific gravity of crude oil the higher is its price.

A 2c per bbl. differential in price for each degree of gravity below and above a posted price is a usual differential.

Transportation costs to the refinery differ from field to field depending on distance and mode of transportation used.

Refineries pay approximately the same price for crude of equivalent quality and specific gravity, but field prices may vary due to differences in transportation costs to the refinery.



Table 121.

## Canadian Oil-Finding Costs

	Gross new oil reserves (millions of bbls.)	Gross new gas reserves (b.c.f.)	Gas reserves* as equivalent to oil reserves (millions of bbls.)	Total new liquid reserves and equivalent (millions of bbls.)	Expenditures† (\$ millions)	Cost per barrel \$
1947-56 10-yr. Totals .....	2,248.0	14,000	560.0	2,808.0	\$2,467.0	\$0.88
1957 .....	324.6	1,394	55.8	380.4	510.0	1.34
1958 .....	552.0	2,930	117.2	669.2	475.4	0.71
1959 .....	539.6	3,774	151.0	690.6	473.8	0.69
1960 .....	417.4	4,603	184.1	601.5	484.1	0.80
1961 .....	766.9	3,651	146.0	912.9	538.3	0.59
1957-61 5-yr. Average ...	520.1	3,270	130.8	650.9	\$ 496.3	\$0.76
1962 .....	695.2	2,848	113.9	809.1	479.5	0.59
1963 .....	737.0	2,503	100.1	837.1	536.8	0.64
1964 .....	1,748.0	7,517	300.6	2,048.6	617.4	0.30
1965 .....	984.0	2,240	89.6	1,073.6	725.3	0.67
1966 .....	1,954.3	4,203	168.1	2,122.4	742.8	0.35
1962-66 5-yr. Average ...	1,223.7	3,862	154.4	1,378.1	\$ 620.3	\$0.45
Totals 20 Years .....	10,967.0	49,663	1,986.4	12,953.4	\$8,050.4	
20-year Average .....	548.3	2,483	99.3	647.6	\$ 402.5	\$0.63

\* 25 MCF = 1 Bbl. Oil.

† Excluding producing costs.

Source: C.P.A.

Source: Oilweek, February 19, 1968.

**Oilweek**, in its issue of February 19, 1968, published an article entitled "Oil Costs" which reads in part as follows:

It is not feasible, in this study, to allocate expenditures between crude oil, natural gas and by-products so we have taken arbitrary equivalents of 25 mcf of natural gas to one barrel of oil and one long ton of sulphur as 10 barrels of oil in calculating reserves and production.

In the 20-year period since 1947, close to 11 billion barrels of oil and 49.7 trillion cubic feet of gas have been discovered in western Canada, according to the Canadian Petroleum Association. Using our conversion factors, total reserves become 12.9 billion barrels of oil, for an annual average finding rate of 647.6 million barrels.

In the same period, the industry has spent more than \$8 billion to find and develop these reserves for a net cost of 63 cents per barrel.

Looking a little closer into the breakdown, the finding and developing costs in the first 10 years, to 1956, averaged out at 88 cents per barrel and reserves found totaled 2.8 billion barrels — about 280 million barrels annually.

In the next five years, to 1961, the annual finding rate was more than doubled to 651 million barrels while costs went up to \$498 million from \$246 million, with the result that the average cost dropped to 76 cents per barrel.

The finding rate again doubled in the last five years to 1,378 million barrels annually, but expenditures made a more moderate move upward to some \$620 million annually, lowering the per barrel cost to 45 cents.

Table 122.

## Cost of One Barrel of Oil (\$ per bbl.) — Alberta, 1962-1966

Exploration, including geological and geophysical work .....	0.09
Development Drilling .....	0.08
Land Costs, including bonuses for acquisition and rentals .....	0.11
Producing Facilities in the field including secondary recovery schemes and gas processing plants .....	0.07
Other Miscellaneous costs .....	0.02
Total finding and development costs .....	0.37
Royalty payments cost .....	0.29
Producing costs were the biggest single expense item and included operations of wells, flow lines and associated facilities, and gas plants .....	0.38
Total per barrel costs .....	\$1.04

The total producing cost equals 3c per gallon.

EXPLORATION	0.09
DEVELOPMENT DRILLING	0.08
LAND COSTS	0.11
PRODUCING FACILITIES	0.07
OTHER	0.02
ROYALTY PAYMENTS	0.29
PRODUCING COSTS	0.38

TOTAL COSTS \$1.04

## Analysis of Per Barrel Producing Costs, 1962-1966

		Alberta		Saskatchewan		British Columbia	
		\$	%	\$	%	\$	%
Exploration .....	\$0.09	8.7%	\$0.13	10.0%	\$0.25	18.4%	
Development drilling .....	0.08	7.7	0.18	13.8	0.12	8.8	
Land acquisition & rental .....	0.11	10.6	0.14	10.8	0.24	17.6	
Producing facilities .....	0.07	6.7	0.18	13.8	0.13	9.6	
Other .....	0.02	1.9	0.05	3.8	0.03	2.2	
Total finding & development ....	<u>\$0.37</u>	<u>35.6%</u>	<u>\$0.68</u>	<u>52.2%</u>	<u>\$0.77</u>	<u>56.6%</u>	
Finding and development .....	0.37	35.6	0.68	52.2	0.77	56.6	
Royalties .....	0.29	27.9	0.28	21.6	0.27	19.9	
Producing cost .....	0.38	36.5	0.34	26.2	0.32	23.5	
Total .....	<u>\$1.04</u>	<u>100.0%</u>	<u>\$1.30</u>	<u>100.0%</u>	<u>\$1.36</u>	<u>100.0%</u>	

Source: Oilweek, February 19, 1968.

### The Cost of Crude Oil (Method "A")

Although expenditures for discoveries are joint costs for the discovery of crude oil and natural gas, we considered it was possible to segregate and allocate the expenditures for each.

There are some expenditures which can clearly be allocated to operations for discovery of gas and there are other expenditures which can clearly be allocated to operations for discovery of oil. For the expenditures for discoveries which cannot be directly allocated, some reasonable formula was required. It was decided to allocate costs between all gas and oil exploratory operations according to the proportions of actual costs incurred in gas and oil prone areas, as described in a study by Dr. J. E. Weinrich. Based on a wide sample of exploratory drilling in gas and oil prone areas in Alberta, this leads to a reasonably safe conclusion that approximately 35% to 40% of exploratory costs can be allocated to gas. The same percentage was suggested by petroleum executives who were asked to give an educated guess as to the proportion of total costs that they would, in a large sampling of drilling operations, attribute to exploration for gas. Accordingly in Tables 124, 125, 126 and 127 we have attributed to gas exploration 40% of all costs of exploration that could not be directly allocated either to oil or to gas.

Table 123  
Cost of Crude Oil and Alberta Government Revenue

	Cost Per Barrel	Government Revenue Per Barrel
Oil Week (1952 - 1965) <sup>1</sup> .....	\$1.04	\$0.40
G.M.E. (Method "A") (1952 - 1965) <sup>2</sup> .....	\$1.07	\$0.51
G.M.E. (Method "B") (1947 - 1965) <sup>3</sup> .....	\$1.13	\$0.52
Independent Petroleum Association of Canada (1964 - 1966) <sup>4</sup> .....	—	\$0.95

1. Oil Week, February 19, 1968.

2. Tables 124, 125.

3. Chart 69.

4. Edmonton Journal, March 11, 1968. This figure based on production only. Discovery expense was allocated to barrels produced rather than barrels of reserves found.



Table 126  
EXPENDITURES FOR DISCOVERY AND PRODUCTION OF CRUDE OIL  
(Alberta 1952 - 1965)  
(Method "A")

Year	Exploration*	Development Drilling*	Producing* Facilities	Other*	Royalties†	Rentals‡	Crown Land Sales‡	Additions to Initial Recoverable Crude Oil Reserves§ ( '000 Bbls.)
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)	
1952	\$ 53,400	\$ 51,000	\$ 32,600	\$ 1,200	\$ 12,536	\$ 17,839	\$ 22,393	392,340
1953	54,600	52,800	33,600	1,800	15,959	20,974	21,296	419,920
1954	54,300	41,300	38,100	2,400	19,175	24,217	63,943	349,210
1955	61,600	69,300	48,000	2,400	25,552	20,211	62,033	429,440
1956	60,700	94,300	65,200	4,800	34,842	24,670	71,691	515,470
1957	57,900	67,300	50,900	6,300	35,384	29,767	67,491	251,270
1958	63,500	66,800	51,500	7,800	23,235	29,676	49,506	9,038
1959	58,300	61,900	60,100	8,100	25,982	31,664	70,221	424,899
1960	56,100	77,600	66,100	12,900	25,613	31,360	50,259	305,785
1961	54,700	76,200	60,700	9,600	32,062	30,141	42,560	362,485
1962	54,700	61,560	64,600	10,200	40,889	37,634	30,572	279,088
1963	55,200	71,700	71,800	11,400	43,457	36,870	46,352	355,483
1964	61,200	72,840	74,600	13,200	47,060	41,827	84,749	2,193,178
1965	69,000	79,380	82,180	14,820	51,058	56,257	119,230	432,998
	<u>\$815,200</u>	<u>\$943,980</u>	<u>\$799,980</u>	<u>\$106,920</u>	<u>\$432,804</u>	<u>\$433,107</u>	<u>\$802,326</u>	<u>6,720,634</u>

Operation of Wells ..... 393,120,000

Field Equipment, etc. .... 406,860,000

Total Expenditure on Producing Facilities ..... \$ 799,980,000

Alberta Cumulative Oil Production (on which Government received Royalties)§  
1952 - 1965 1,376,743,000 Barrels.

\* Table 127.

† Alberta Oil and Gas Picture, 1967 (does not include monies received from natural gas).

‡ Oil and Gas Conservation Board, Proved Initial Reserves in Alberta, 1967.

§ Alberta Department of Mines and Minerals. (Yearly figures are not available.)



Table 127  
NET CASH EXPENDITURE FOR CRUDE OIL, ALBERTA, 1952 - 1965  
(\$ Thousands)  
(Method "A")

Exploration	1952	1953	1954	1955	1956	1957	1958
Geological and Geophysical costs* .....	\$ 32,100	\$ 31,200	\$ 26,700	\$ 27,600	\$ 24,300	\$ 21,300	\$ 21,900
Exploratory Drilling (dry)* .....	11,100	10,800	14,100	17,700	18,900	17,100	21,300
Productive — Oil .....	4,500	6,000	7,500	7,000	8,500	6,000	6,500
Overhead (not included above)* .....	5,700	6,600	6,000	9,300	9,000	13,500	13,800
	<u>\$ 53,400</u>	<u>\$ 54,600</u>	<u>\$ 54,300</u>	<u>\$ 61,600</u>	<u>\$ 60,700</u>	<u>\$ 57,900</u>	<u>\$ 63,500</u>
<b>Development Drilling</b>							
Dry* .....	\$ 3,300	\$ 2,700	\$ 1,800	\$ 1,800	\$ 2,100	\$ 3,000	\$ 2,400
Productive Oil .....	46,500	48,000	38,000	66,000	89,500	61,000	60,500
Overhead* .....	1,200	2,100	1,500	1,500	2,700	3,300	3,800
	<u>\$ 51,000</u>	<u>\$ 52,800</u>	<u>\$ 41,300</u>	<u>\$ 69,300</u>	<u>\$ 94,300</u>	<u>\$ 67,300</u>	<u>\$ 66,800</u>
<b>Producing Facilities</b>							
Field Equipment Oil .....	\$ 12,500	\$ 12,000	\$ 12,000	\$ 16,500	\$ 26,500	\$ 17,000	\$ 15,500
Secondary Recovery* .....	—	—	600	600	600	1,800	3,000
Other* .....	7,800	6,300	8,700	11,400	14,400	8,700	4,800
Operation of Wells* .....	12,300	15,300	16,800	19,500	23,700	23,400	28,200
	<u>\$ 32,600</u>	<u>\$ 33,600</u>	<u>\$ 38,100</u>	<u>\$ 48,000</u>	<u>\$ 65,200</u>	<u>\$ 50,900</u>	<u>\$ 51,500</u>
<b>Other</b>							
All Other Expenses* .....	\$ 1,200	\$ 1,800	\$ 2,400	\$ 2,400	\$ 4,800	\$ 6,300	\$ 7,800
<b>TOTAL</b> .....	<u>\$138,200</u>	<u>\$142,800</u>	<u>\$136,100</u>	<u>\$181,300</u>	<u>\$225,000</u>	<u>\$182,400</u>	<u>\$189,600</u>

Exploration	1959	1960	1961	1962	1963	1964	1965
Geological and Geophysical costs* .....	\$ 18,900	\$ 19,800	\$ 18,300	\$ 19,500	\$ 16,800	\$ 19,200	\$ 25,080
Exploratory Drilling (dry)* .....	14,400	18,000	15,600	21,000	21,300	21,000	28,020
Productive — Oil .....	13,000	6,000	13,000	5,500	8,700	12,000	15,900
Overhead (not included above)* .....	12,000	12,300	7,800	8,700	8,400	9,000	—
	<u>\$ 58,300</u>	<u>\$ 56,100</u>	<u>\$ 54,700</u>	<u>\$ 54,700</u>	<u>\$ 55,200</u>	<u>\$ 61,200</u>	<u>\$ 69,000</u>
<b>Development Drilling</b>							
Dry* .....	\$ 3,300	\$ 4,200	\$ 6,300	\$ 5,580	\$ 5,220	\$ 6,300	\$ 8,580
Productive Oil .....	55,000	69,500	66,000	52,500	63,000	61,500	70,800
Overhead* .....	3,600	3,900	3,900	3,480	3,480	5,040	—
	<u>\$ 61,900</u>	<u>\$ 77,600</u>	<u>\$ 76,200</u>	<u>\$ 61,560</u>	<u>\$ 71,700</u>	<u>\$ 72,840</u>	<u>\$ 79,380</u>
<b>Producing Facilities</b>							
Field Equipment Oil .....	\$ 17,500	\$ 20,500	\$ 20,500	\$ 16,000	\$ 16,000	\$ 21,500	\$ 28,900
Secondary Recovery* .....	2,400	3,900	2,400	3,600	4,800	4,500	5,640
Other* .....	10,200	8,400	5,400	9,000	9,000	8,100	7,920
Operation of Wells* .....	30,000	33,300	32,400	36,000	42,000	40,500	39,720
	<u>\$ 60,100</u>	<u>\$ 66,100</u>	<u>\$ 60,700</u>	<u>\$ 64,600</u>	<u>\$ 71,800</u>	<u>\$ 74,600</u>	<u>\$ 82,180</u>
<b>Other</b>							
All Other Expenses* .....	\$ 8,100	\$ 12,900	\$ 9,600	\$ 10,200	\$ 11,400	\$ 13,200	\$ 14,820
<b>TOTAL</b> .....	<u>\$188,400</u>	<u>\$212,700</u>	<u>\$201,200</u>	<u>\$191,060</u>	<u>\$210,100</u>	<u>\$221,840</u>	<u>\$245,380</u>

GRAND TOTAL \$2,666,080

\* Allocated at 40% for gas—Dr. J. E. Weinrich study, Economic Impact of the Canadian Gas Industry Local, Provincial and Regional, 1966. Pages 34 and 38.

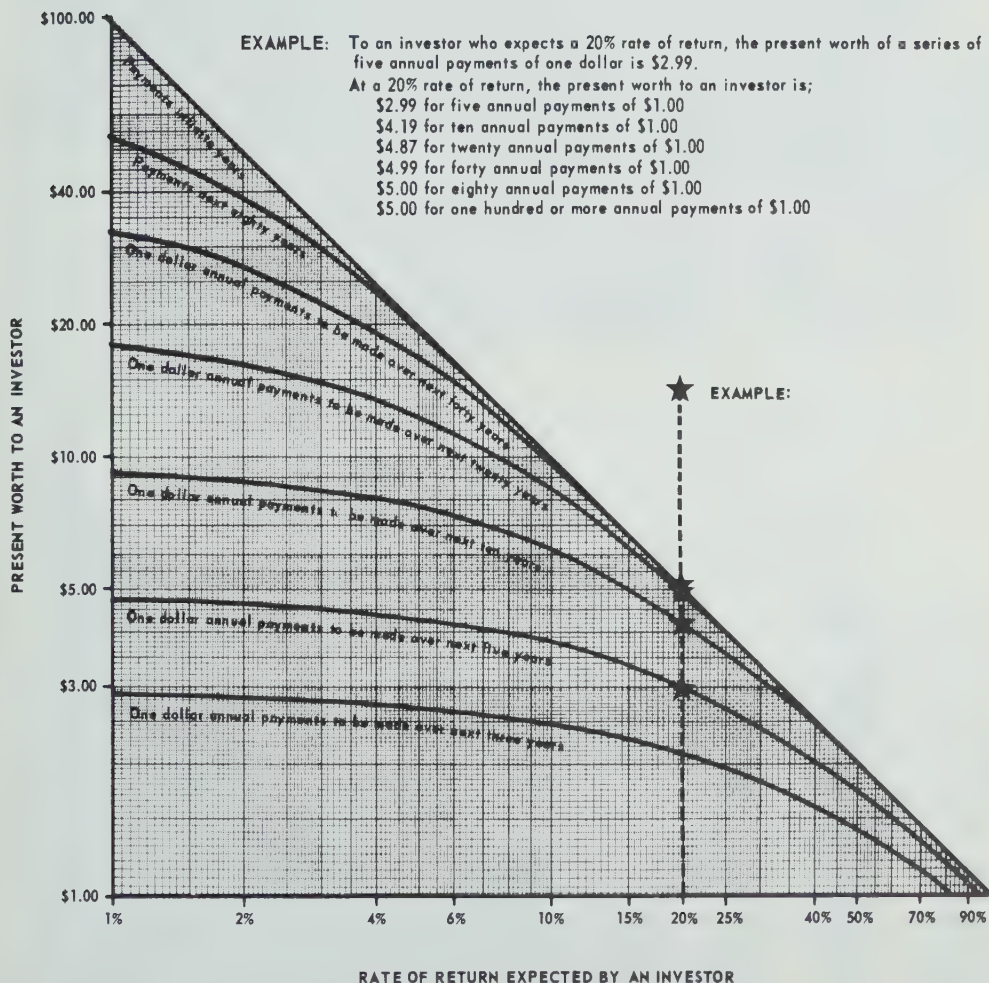
Source: Canadian Petroleum Association, Statistical Year Book 1965.

Why are reserves usually produced in approximately 15 years?

We assume it has something to do with the rate of return that oil companies desire from their invested capital. There is relatively little incentive to invest money now that won't produce income until after the expiration of 15 years. Chart 67 shows the present worth to an investor of a series of payments of one dollar based on a 20% rate of return. Such an investor will pay \$4.19 for the first ten annual payments of \$1.00. However, he will only pay an additional .68c for the next ten annual payments of \$1.00 (being \$4.87 for 20 annual payments of \$1.00).

CHART 67

## PRESENT WORTH TO AN INVESTOR OF A SERIES OF PAYMENTS OF ONE DOLLAR



In looking at expenditures to discover and to produce crude oil and natural gas, these hydrocarbons are found in association with one another so the expenditures are joint costs. These costs are shown in Chart 68 which gives a comparison of crude oil and natural gas expenditures with revenue in Alberta from 1947 to 1967.

However, the expenditures for discovery, if allocated on a per barrel basis should be allocated to the reserves found. The expenditures for annual production on the other hand, if allocated on a per barrel basis should be allocated to the barrels produced.

In Chart 68 entitled "Comparison of Crude Oil & Natural Gas Expenditures with Revenue" each bar of the chart representing expenditures is divided into 2 portions:

- (a) the expenditures for discoveries, which can be allocated on a per barrel basis to reserves found, are the starred portion;
- (b) the expenditures for annual production, which can be allocated on a per barrel basis to oil produced, are the clear portion of the expenditure bar.

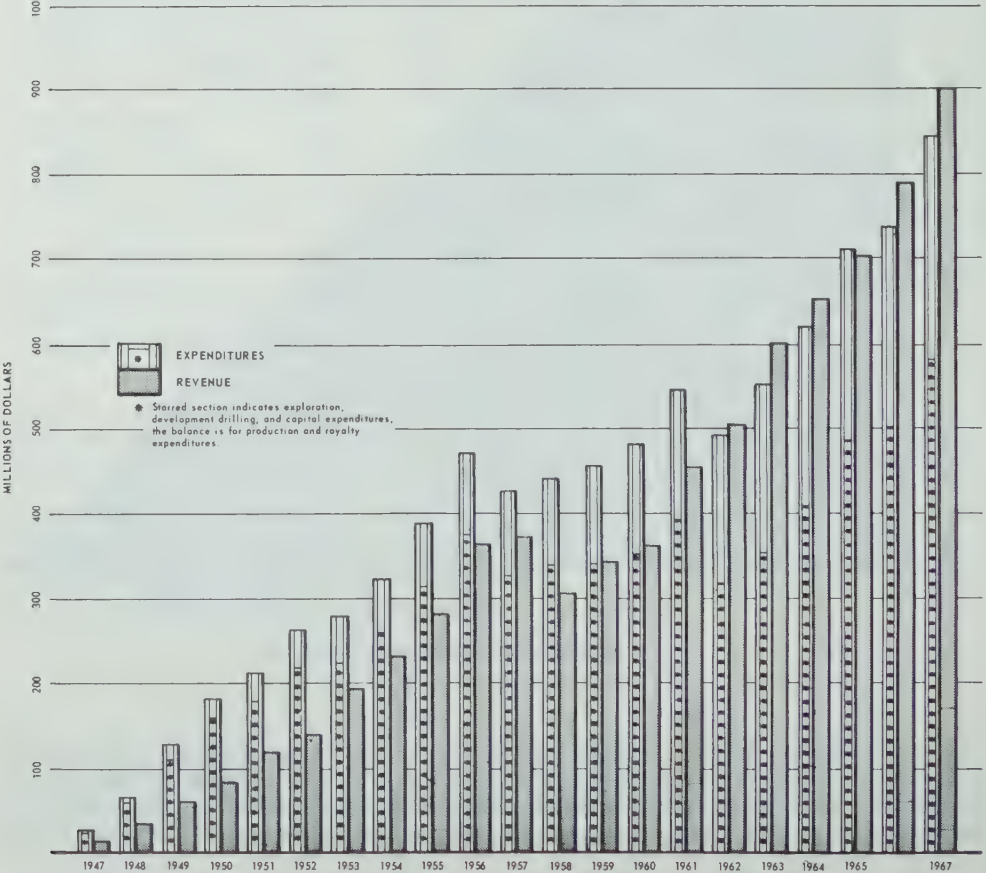
Revenues from crude oil have always been much greater than revenues from gas and and gas products. However, during the 1960's, revenues from gas and gas products have increased substantially in their proportion to those from crude oil. This increase is a reflection of recent high production rates for gas, while crude oil production has been well below the capacity for the industry.

Among the gas products, revenues from sulphur, propane and butane have been increasing rapidly as a proportion of natural gas revenues. While the largest revenues accrue from pentanes plus and condensate, the percentage of revenue from these sources has tended to decrease during the past few years. This is shown in Table 128 which details the value of petroleum products to Alberta producers during the years 1947 to 1967.

CHART 68

Province of Alberta  
1947 to 1967

COMPARISON OF CRUDE OIL AND NATURAL GAS  
EXPENDITURES WITH REVENUE





## Expenditures on Oil and Gas in Alberta (Method "B")

Because oil and gas are found and produced together, the allocation of some expenditures to oil or to gas and gas products is not an easy task. Many of the expenditures can be identified, others are common to both oil and gas. While gas and gas products do not generate nearly as much revenue as does crude oil, some share of the joint costs should be borne by gas.

Of course, after the products have been separated, costs are relatively easy to identify. Royalty payments (four fifths of which are crown royalties) can be estimated according to royalty payments for crude oil and gas and gas products made to the Province of Alberta. Costs associated with processing gas and gas products can also be identified.

However, production costs (which are available only as a joint cost) have to be estimated. The basis for estimation used herein was simply to proportion costs on the basis of the weight of the finished products produced in that year. During the early 1950's when gas was produced at a loss, the losses have been charged against the cost of producing crude oil. The proportion by weight of gas and gas products during the 1950's fell to under 15% but rose to nearly 50% by 1965.

Fortunately, all but a small fraction of the development drilling and capital expenditures have been identified as chargeable to crude oil, or to gas and gas products. The remainder of development drilling expenditures (i.e. — expenditures for dry wells and overhead) was allocated to either oil or to gas in the proportion of the amount spent for productive gas wells and productive oil wells. About one sixth of development drilling expenditures were thus charged to gas and gas products. Capital expenditures (which amounted to less than 10% of the cost of producing the oil and gas) were allocated in a similar fashion, but with nearly one-half the joint expenditures being charged to gas and gas products.

Exploration expenditures were allocated on the basis of the weight of additions to proved reserves of oil or gas.

Table 128  
VALUE OF PETROLEUM PRODUCTS TO ALBERTA PRODUCERS  
(\$ Million)  
(1947 - 1967)

Year	Crude Oil	Condensate	Pentanes Plus	Natural Gas	Propane	Butane	Sulphur	Total Gas and Gas Products	Total Petroleum Products
1947	14.67		.98	1.70				2.68	17.35
1948	33.63		1.55	1.92	.01			3.48	37.11
1949	57.33		1.60	2.08	.06			3.74	61.07
1950	80.64		1.60	2.57	.18	.04		4.39	85.03
1951	115.72		1.66	2.90	.32	.10		4.98	120.70
1952	134.72	.18	1.66	4.83	.44	.17	.22	7.50	142.22
1953	187.15	.29	1.77	5.53	.55	.24	.44	8.82	195.97
1954	223.35	.14	1.98	7.00	.68	.30	.44	10.54	233.89
1955	269.71	.46	2.46	8.45	1.00	.55	.66	13.58	283.29
1956	350.65	.51	2.64	8.69	1.08	.64	.67	14.23	364.88
1957	352.89	1.81	2.69	9.30	1.42	.61	2.39	18.22	371.11
1958	281.25	2.16	2.64	16.50	1.48	.64	2.52	25.94	307.19
1959	306.62	3.29	3.31	24.01	1.74	1.28	4.39	38.02	344.64
1960	310.57	6.69	3.39	32.32	2.34	1.65	6.08	52.47	363.04
1961	356.54	14.22	18.00	50.91	3.09	1.87	8.78	96.87	453.41
1962	335.19	35.23	39.79	73.87	4.02	2.28	14.39	169.58	504.77
1963	423.89	7.99	50.98	96.56	4.45	3.07	14.90	177.95	601.84
1964	449.18	1.87	60.11	113.19	5.91	5.92	15.58	202.58	651.76
1965	470.09	1.36	67.31	122.51	10.77	7.21	21.34	230.50	700.59
1966	520.71	1.90	71.14	135.47	15.72	9.68	36.15	270.06	790.77
1967	577.98	2.06	73.42	150.56	20.95	11.10	64.64	322.73	900.71
TOTAL	5,852.48	80.16	410.68	870.87	76.21	47.35	193.59	1,678.86	7,531.34

Source: Gasoline Marketing Enquiry Records.



Table 129 shows cash expenditures for crude oil in Alberta during the period 1947 to 1967 calculated by Method "B".

Table 130 shows cash expenditures for gas and gas products in Alberta during the period 1947 to 1967 calculated by Method "B".

Table 129  
CASH EXPENDITURES FOR CRUDE OIL — ALBERTA (Method "B")  
(Millions of Dollars)  
(1947 - 1967)

Year	Explora- tion	Develop- ment Drilling	Capital Expendi- tures	Sub- total	Produc- tion	Royal- ties	Total
1947	13.7	4.0	3.0	20.7	0.8	1.3	22.8
1948	25.7	19.5	8.7	53.9	2.8	1.8	58.5
1949	56.8	28.0	14.1	98.9	7.8	4.8	111.5
1950	80.3	39.4	20.6	140.3	9.9	6.2	156.4
1951	73.3	42.1	17.4	132.8	15.7	11.2	159.7
1952	97.0	53.6	24.5	175.1	20.7	15.2	211.0
1953	99.3	55.2	20.4	174.9	26.5	19.6	221.0
1954	150.2	43.2	26.5	219.9	29.4	24.4	273.7
1955	148.3	71.3	35.5	255.1	33.8	30.4	319.3
1956	153.4	97.2	50.3	300.9	44.7	40.3	385.9
1957	149.4	70.5	31.6	251.5	44.9	39.3	335.7
1958	135.7	69.9	27.3	232.9	49.3	28.6	310.8
1959	157.5	64.6	35.0	257.1	49.4	31.9	338.4
1960	138.1	80.5	38.8	257.4	55.4	32.6	345.4
1961	140.9	78.0	32.0	250.9	50.3	49.9	351.1
1962	134.8	64.1	35.2	234.1	46.4	56.2	336.7
1963	145.9	75.2	35.3	256.4	51.1	57.6	365.1
1964	196.8	77.7	39.2	313.7	50.4	61.9	426.0
1965	275.4	82.0	46.2	403.6	53.2	59.6	516.4
1966	268.1	66.8	42.0	376.9	56.5	69.0	502.4
1967	292.5	50.4	53.8	396.7	59.4	80.8	536.9
TOTAL	2,933.1	1,233.2	637.4	4,803.7	758.4	722.6	6,284.7

Source: Gasoline Marketing Enquiry Records.

Table 130  
CASH EXPENDITURES FOR GAS AND GAS PRODUCTS — ALBERTA (Method "B")  
(Millions of Dollars)  
(1947 - 1967)

Year	Explora- tion	Develop- ment Drilling	Estimated Capital Expendi- tures	Sub- total	Produc- tion	Royal- ties	Operation of Gas Plants	Total
1947	4.8	—	—	4.8	0.7	0.2	—	5.7
1948	5.8	—	0.8	6.6	1.7	0.2	—	8.5
1949	7.7	—	4.9	12.6	2.7	0.2	2.0	17.5
1950	11.2	1.1	6.4	18.7	3.1	0.3	3.5	25.6
1951	33.7	4.9	8.6	47.2	3.3	0.3	3.5	54.3
1952	36.5	2.9	4.0	43.4	3.8	0.3	3.5	51.0
1953	37.2	5.8	6.1	49.1	4.5	0.4	4.0	58.0
1954	33.3	2.8	4.5	40.6	5.1	0.6	3.0	49.3
1955	50.2	2.2	8.0	60.4	5.7	0.6	3.0	69.7
1956	50.6	3.3	21.2	75.1	6.3	0.7	4.0	86.1
1957	54.1	7.5	13.9	75.5	8.1	0.7	6.0	90.3
1958	65.8	8.1	33.7	107.6	14.7	1.4	8.5	132.2
1959	51.0	12.9	21.5	85.4	17.6	1.6	11.5	116.1
1960	50.4	18.0	27.7	96.1	25.6	2.4	11.0	135.1
1961	42.1	32.5	67.5	142.1	25.2	5.1	21.0	193.4
1962	42.7	19.5	24.8	87.0	34.6	9.8	28.0	159.4
1963	38.3	14.3	47.7	100.3	42.4	15.4	30.0	188.1
1964	42.2	13.1	41.8	97.1	45.6	18.1	35.0	195.8
1965	34.3	16.9	42.9	94.1	51.0	19.7	32.5	197.3
1966	45.7	21.2	57.8	124.7	52.3	22.3	36.1	235.4
1967	52.0	25.6	108.0	185.6	52.9	25.2	42.0	305.7
TOTAL	789.6	212.6	551.8	1,554.0	406.9	125.5	288.1	2,374.5

Source: Gasoline Marketing Enquiry Records.

### **Rate of Return from Oil and Gas in Alberta (Method "B")**

Because of the acceleration in oil activity in Alberta for the past twenty years, revenues from oil and gas have always been exceeded by expenditures. Of course, in the long run, total revenues would exceed total expenditures as investments in exploration, development and capital are recovered. Meanwhile, the oil industry must experience some tangible return from investments in order to justify ever-increasing investment.

A preliminary measure of the profitability of oil activities is given by charging exploration and development expenditures at cost to the additions to proved reserves. This can be done either on a current basis, or by using the discounted cash flow analysis but with 0% rate of return. There was little difference in the results obtained by the above two methods, except for the variability introduced in the former method from using annual data for additions to proved reserves. The latter approach tends to smooth out this variation; furthermore, from the results so obtained, there did not seem to be any obvious basic trends or fluctuations which would lead to any very different results in the years 1960 - 1965.

If it is assumed that capital expenditures are made at the time oil and gas are discovered, and are recovered when the oil and gas are produced, then capital expenditures can also be charged to additions to reserves. An alternative and perhaps more sophisticated method would be to amortize capital expenditures over a set time period, and at the rate of return for the other activities (Method "B"). Also, capital expenditures could be written off against current production, but this procedure makes no allowance for the present value of field equipment and other above-the-ground assets.

On this basis, Chart 69 shows the realization from net cash expenditures per barrel of crude oil discovered and produced in Alberta, 1965. In this Chart, in arriving at the average expenditures per barrel, royalty payments and production costs were allocated to barrels produced, whereas costs of land acquisition, rentals, exploration, development drilling and capital expenditure were allocated on the basis of reserves discovered. Expenditures for discoveries earned a rate of return of 19.9%.

Chart 70 shows the percentage rate of return on monies invested annually to discover crude oil.

Chart 71 shows the percentage rate of return on monies invested annually to discover natural gas.

In both cases the percentage rate of return on expenditures for the discovery of reserves of crude oil and natural gas appears to range between 15% and 20%. On the basis of such a rate of return it is not economical to spend money to find new reserves unless such reserves are going to be produced within a period of approximately 15 years.

CHART 69

REALIZATION FROM NET CASH EXPENDITURE PER  
BARREL OF CRUDE OIL DISCOVERED AND  
PRODUCED IN ALBERTA, 1965

METHOD 'B'

REALIZATION PER BARREL  
PRODUCED

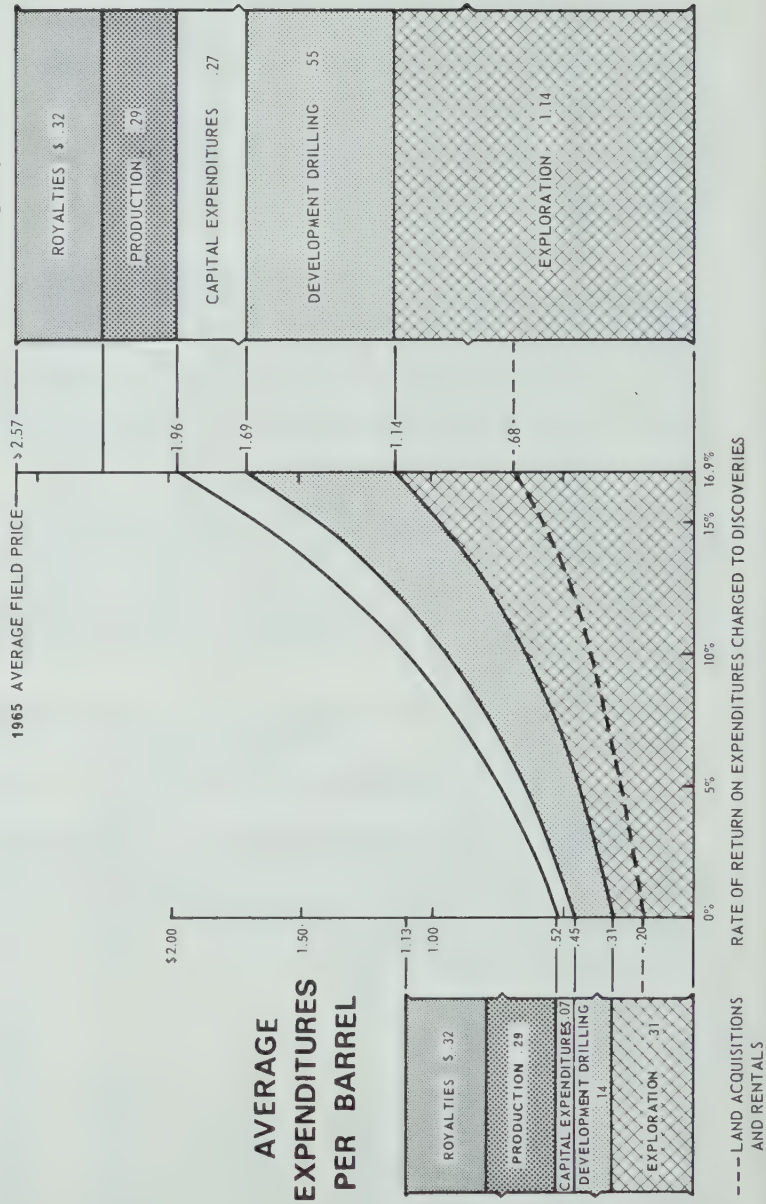


CHART 70  
RATE OF RETURN ON  
NET CASH EXPENDITURES PER BARREL OF  
CRUDE OIL  
DISCOVERED AND PRODUCED  
METHOD 'B'

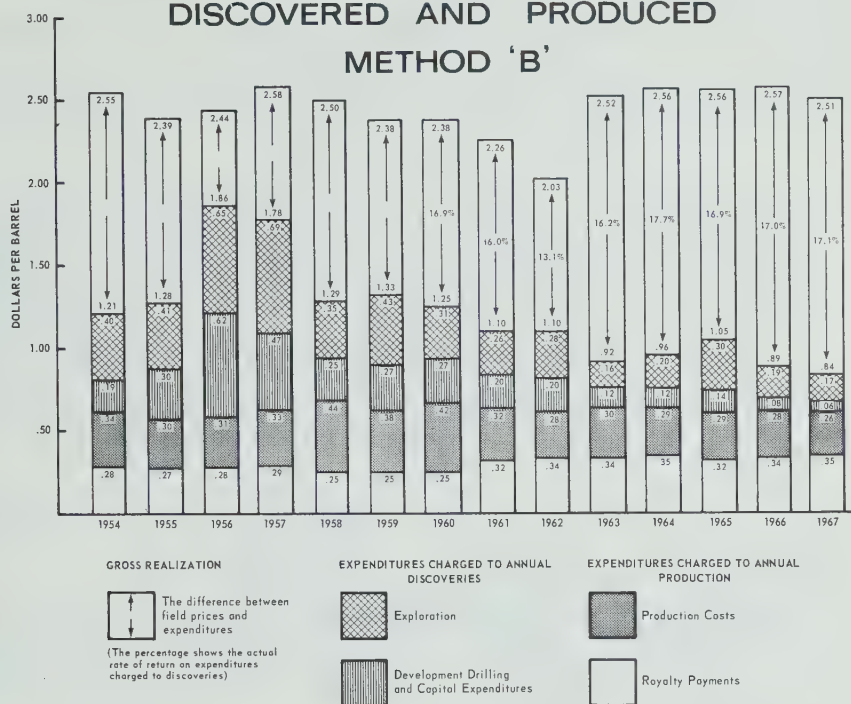
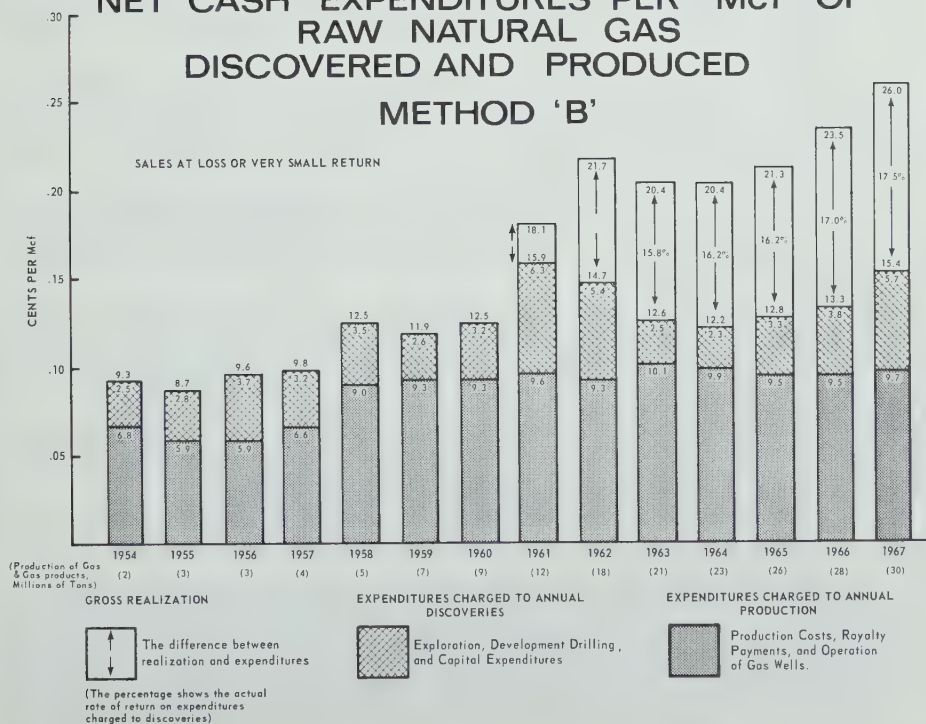


CHART 71  
RATE OF RETURN ON  
NET CASH EXPENDITURES PER Mcf OF  
RAW NATURAL GAS  
DISCOVERED AND PRODUCED  
METHOD 'B'





The Canadian average oil-finding costs based on five year averages have dropped progressively from 88c per barrel to 76c to 45c.

**Oilweek's** analysis indicates that Alberta's per barrel finding and development cost has dropped to 37c per barrel.

To produce such averages some producers have higher costs and others have lower costs.

An article in **The Globe and Mail** of Toronto, under the headline "Rainbow's Real Gold is Continent's Record Low Oil-Finding Cost", read in part as follows:

#### EXPLORATION COSTS LESS

But the so-called problem of big new reserves gives Canadian producers an opportunity to go after a market that possibly would have been too big to handle before Rainbow. Mr. Rudolph said in an interview this week. He said it is possible, for the first time, to foresee Alberta reserves big enough to challenge for the Chicago-Detroit-Toledo market. Just as important, he says, is the fact that the cost of finding the new Rainbow reserves is far less than for any other oil yet discovered in North America.

The long-term finding cost of Alberta oil is estimated at around \$1.40 a barrel. Some of the newer fields, such as Mitsue and Nipisi in the Lesser Slave Lake area, are down to around 30 cents. Some observers estimate that the 327-million-barrel (conservative official figures) Rainbow B pool operated by Banff could represent a finding cost of as little as 1 cent a barrel. The cost of Rainbow oil could be as significant as its quantity.

Although the cost of crude will differ from well to well, and from field to field within Alberta, the average cost per gallon appears to be approximately 3c.

#### (7) Disposition of Canadian Crude Oil

The Ontario market which is now shared by all of Canada's domestic producers is not as large as that portion of the Canadian market served by imports of crude. "Cartel" subsidiaries import foreign crude to their refineries in Quebec and the Maritimes that has been produced by the "Cartel" in exporting countries of the Caribbean and the Middle East.

At the same time Alberta places restrictions on its production of crude oil.

There are two kinds of possible restrictions:

- (a) "Engineering allowables" based on conservation of the reservoir with a view to obtaining production of the maximum amount of recoverable oil; and
- (b) "Economic allowables" which restrict production to market demand.

In Alberta, the "economic allowables" restrict production to an amount considerably less than would be permitted by the "engineering allowables" based on maximum conservation of the resource.

The system of "Economic Allowables" or pro-rata to market demand serves the important purpose of providing every producer (who doesn't have refining and marketing facilities of his own) with a market for his pro rata share of the total market demand.

In addition however, it restricts production "to the market demand" so that there is no surplus oil available which might lead to competition in price. Demand is based on a stated price, and it is a general economic rule that demand may increase if price declines.

The investigations of Senator Estes Kefauver, as Chairman of the United States Senate Sub-Committee on Anti-Trust and Monopoly in various industries, exposed a shocking picture of price fixing and elimination of competition.

In his book entitled "In a Few Hands: Monopoly Power in America", his views on crude oil prices were expressed at page 226.

Conservation measures constitute another Government sanction used to promote monopoly. The oil industry not only enjoys the protection of mandatory and increasingly stringent quotas on the importation of foreign oil; it has a system built into the governmental structure for controlling the amount of domestic oil produced. At this moment an oil expert employed in the Department of Interior is calculating the demand for oil in this country on a monthly basis, and he makes allocation of the "needed production" among the oil-producing states. Obviously, these predictions

## CHART 72

### CRUDE OIL CANADIAN PRODUCTION AND DISPOSITION AND FOREIGN IMPORTS (MILLIONS OF BARRELS PER YEAR)



SOURCE: REFINED PETROLEUM PRODUCTS 1965 (DOMINION BUREAU OF STATISTICS)  
SASKATCHEWAN MINERAL STATISTICAL YEAR BOOK 1965

are based upon demand **at a given price**, for price is an essential element in the demand equation. Upon this simple structure is built a scheme of control by the producing states; they, in turn, allocate "allowable production" among the wells inside their borders. To enforce this dual program of control, the Federal Government prohibits the shipment of "hot oil" in interstate commerce. Outspoken critics of this scheme charge that here, in the name of conservation, the government lends its vast powers to promote private monopoly. This kind of program is frequently defended on the ground of need for protecting the small units in the industry. But the contribution of the small producers to the country's oil supply is insignificant. The net effect is to provide Government sanction for a structure of high prices under which the few large oil companies become increasingly more affluent.

Alberta, as a producer of oil, may have a viewpoint which differs somewhat from most of the other provinces which are essentially consumers of oil. Alberta, as a producer and exporter of oil, is interested in maximizing earnings from oil and would benefit from a formula resulting in production of the maximum volume of oil at the highest price. Canada, with problems of import, export, and balance of payments, may have somewhat different interests.

## CHAPTER 30. REFINING DIVISION COSTS AND PRICES

### (1) Refining Processes

The two principal elements in crude oil are carbon and hydrogen. Carbon and hydrogen can combine to form a number of distinct chemical compounds called hydrocarbons.

Petroleum refining is a manufacturing process to change crude oil into marketable hydrocarbons. Crude oils contain hydrocarbons ranging from one to eighty or more carbon atoms.

Number of Carbon Atoms	Hydrocarbon Compound
1—3	Refinery gases, propane.
4—10	Gasoline range, butanes, light naphthas, heavy naphthas.
11—20	Middle distillates or light fuels such as kerosene or diesel.
Up to 30	Lube oils.
Up to 80	Heavy fuels such as bunker fuels and asphalts.

The refining process produces three broad categories of products, namely—

- (a) gasolines,
- (b) middle distillates,
- (c) heavy fuel oils.

There are several alternate refining processes including

- (a) atmospheric distillation,
- (b) vacuum distillation,
- (c) catalytic cracking,
- (d) catalytic polymerization,
- (e) catalytic reforming.

The intermediate streams produced from such processing steps are blended to produce the marketable product desired.

Atmospheric distillation is the simplest method of processing crude oil. It produces the three principal ranges of products, namely — gasolines, middle distillates, and residual heavy fuels.

Increasing numbers of automobiles created a demand for more gasoline and improved qualities of gasoline. There was also an increasing demand for light fuels for domestic heat. These factors created the incentive to convert low value heavy residual fuels to higher value gasoline and light fuels, so more sophisticated refining processes were developed.

Vacuum distillation and catalytic cracking produces larger volumes of high quality naphtha for gasolines and light fuels by upgrading low value products to higher value products.

Catalytic polymerization produces high quality components for gasoline by upgrading low value gases (formerly used for refinery fuel) to motor gasoline components.

Catalytic reforming is a further processing of naphtha to improve its quality resulting from the need for more high quality gasoline.

The flow of products in the processing of oil and gas is illustrated in Chart 73.

The production and value of petroleum products in Alberta in 1965 is illustrated in Chart 74. Crude oil is usually measured in barrels, natural gas is usually measured in cubic feet, and sulphur, which has to be removed from these hydrocarbons, is usually measured in tons. These items are jointly produced and we wanted a common basis for purposes of comparing quantity of production and value of production. Accordingly in this chart everything was converted to tons.

On this basis approximately 40% of production is natural gas and 60% of production is crude oil. Comparing dollar values per ton of these hydrocarbons,



SIMPLIFIED FLOW OF PRODUCTS IN THE PROCESSING OF OIL AND GAS

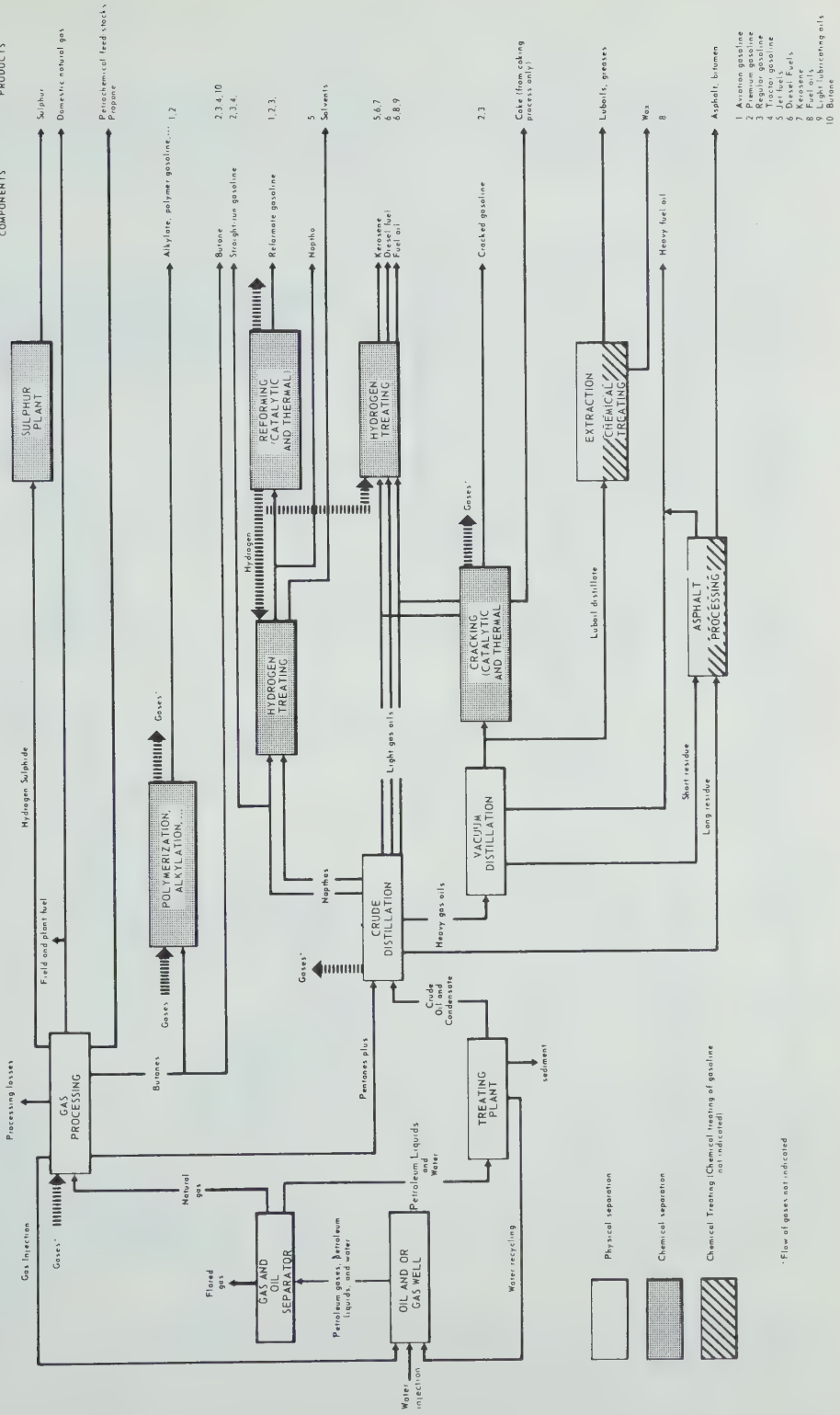
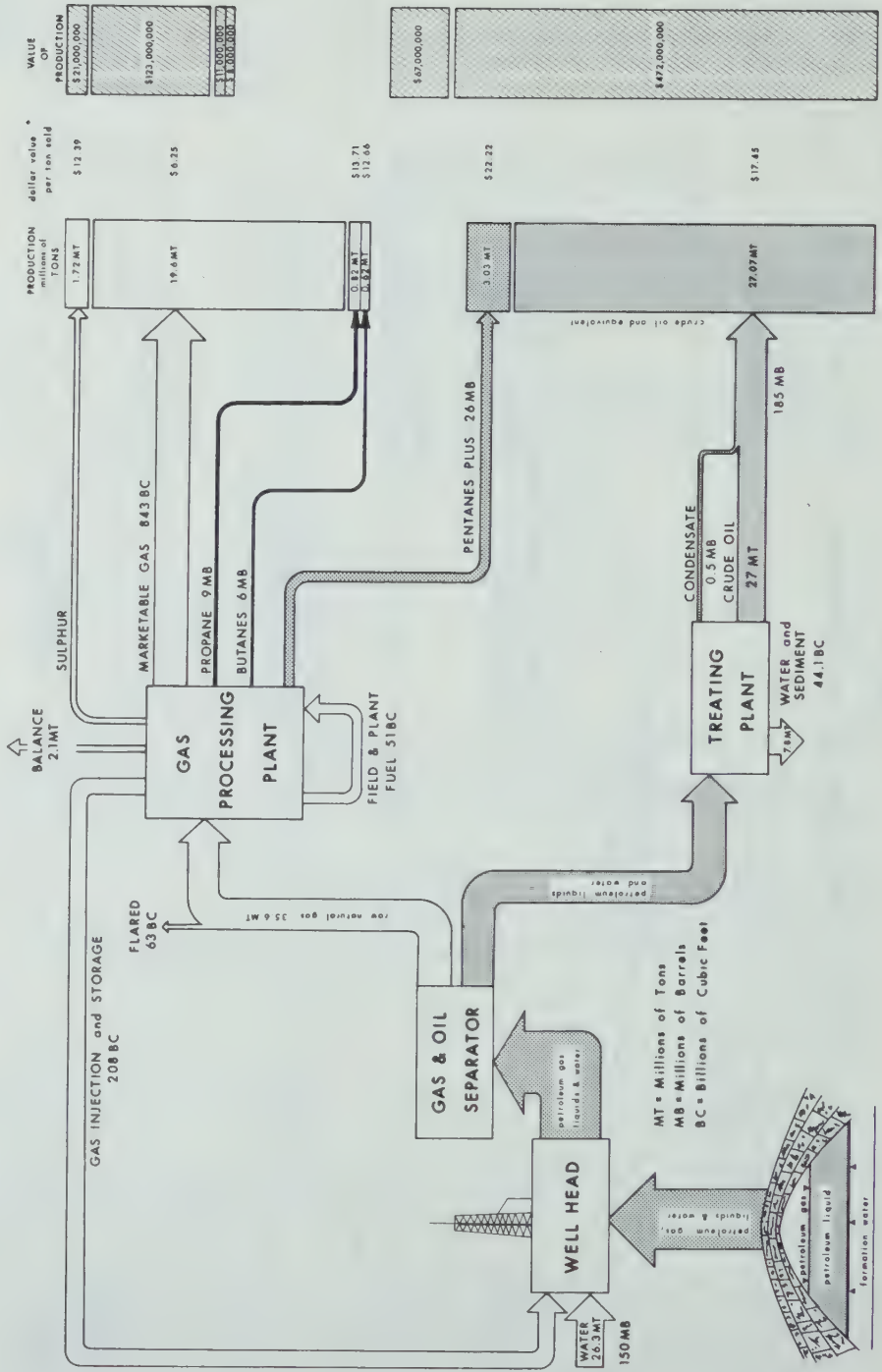




CHART 74

# PRODUCTION AND VALUE OF PETROLEUM PRODUCTS IN ALBERTA IN 1965:



natural gas is less than one-third of the value of gasolines which are produced from pentanes plus.

Natural gas and other products sold as fuels are competitive with other fuels and their prices are lower. Gasoline and diesel for use in internal combustion engines are not faced with competition from other substances to the price per unit can be high.

Crude oil accordingly is processed largely into gasoline and diesel.

Crude oil, condensate and pentanes plus, which are approximately 60% of the quantity of hydrocarbons produced, account for 77% of the value of production.

**(2) Varying Processes and Varying Yields**

To illustrate the variations in yield between a simple refining sequence and a more complex refining sequence Table 131 shows a comparison of a skimming refinery with a conventional refinery. Skimming is basically atmospheric distillation only, with catalytic reforming of gasoline components to meet quality requirements. The advantage of a skimming operation is the low capital investment and the low operating cost. The disadvantage is that a much larger volume of crude oil has to be processed to produce the same amount of gasoline and light fuels, and there is a larger volume of heavy fuel to be disposed of.

The conventional refinery on the other hand, with atmospheric and vacuum distillation, catalytic cracking, etc., requires a larger capital investment and has higher operating costs. It has the advantage of producing more gasolines and middle distillates from a smaller volume of crude oil, and there is a smaller volume of heavy fuels for which there is less market demand.

Table 131

**Refinery Economics: Comparison of Yields, Conventional Processing vs. Skimming**

	Skimming Refinery	Conventional Refinery
Crude Run (Barrels per Day) .....	30,000	20,000
Products		
Gasolines and middle distillates (barrels per day) .....	15,000	15,000
Heavy Fuels (barrels per day) .....	13,500	4,000
Capital Cost, (Millions of \$) .....	\$ 12.5	\$ 22.5
Operating Cost (\$ per barrel) .....	\$ 0.28	\$ 0.68
(Ex Fuel)		
Refining cost (c per gallon) .....	\$ 0.01	\$ 0.02

Source: Gasoline Marketing Enquiry Records.

Chart 75 showing U.S. production of refined petroleum products from 1880 to 1966 indicates how the production of gasoline has increased. The volume of gasoline produced exceeds that of any other item. Gasoline, together with light fuel oil, such as diesel, accounts for the majority of refinery production.

Chart 76 entitled "U.S. Production of Gasoline According to Process Used 1910 to 1965" indicates how increasingly larger quantities of gasoline are being produced by more sophisticated methods of refining and processing.

Refinery processing uses one raw material, crude oil.

Practically all processing steps in a refinery produce more than one product simultaneously. The volume of the various products produced from a processing step can be changed within limits by varying the operating conditions. Changes in operating conditions may produce changes in quality as well as changes in yield.

All finished products are blends of various intermediate streams produced from a processing step. For each finished product the amount of the blend equals the market demand and the quality meets market needs. The composition of the blend can be varied by using different percentages of intermediate streams of different qualities.

Each processing unit has different operating costs. Changes in operating conditions of a unit change the operating costs of the unit. The refinery's objective is to use the processing units and to vary operating conditions in order to produce those products which will meet the current requirements of the market in a way that will minimize the total costs of production of all products.

In a refinery the processing steps require large amounts of heat. Approximately 7% of the crude oil is ultimately consumed as refinery fuel. The portions

CHART 75

# **U.S. PRODUCTION OF REFINED PETROLEUM PRODUCTS 1880-1966**

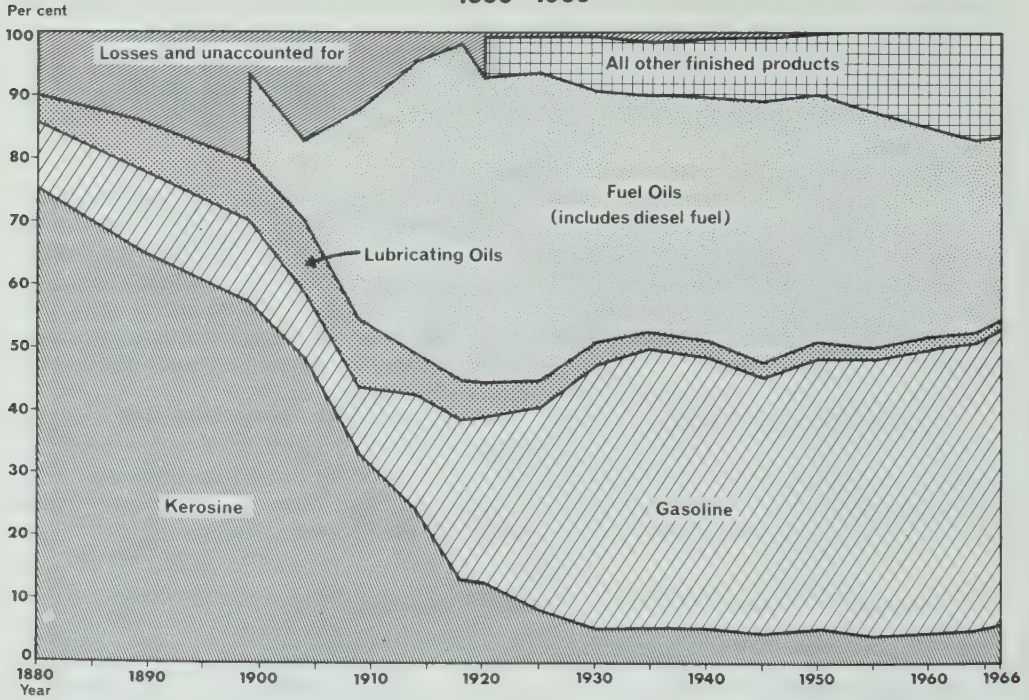
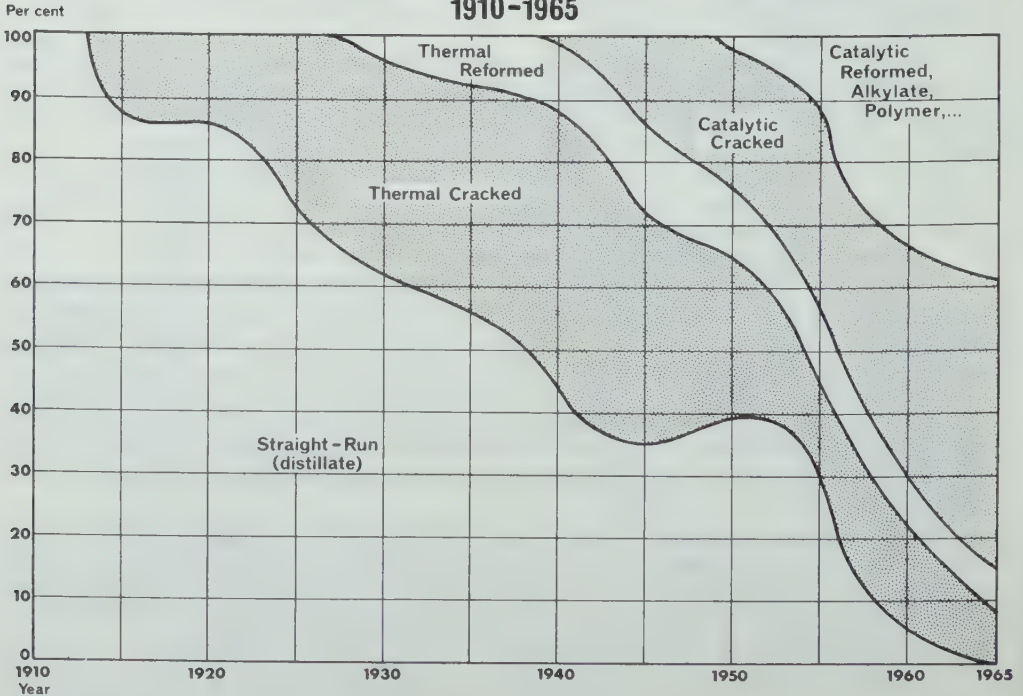


CHART 76

# **U.S. PRODUCTION OF GASOLINE ACCORDING TO PROCESS USED 1910-1965**





of the crude used as fuel are normally those which would have the lowest value if sold in the market. Some refining processes result in gains in volume, which to some extent offset the percentage used for fuels.

As several products are produced in combination from one raw material, which is processed in joint facilities, this introduces problems in allocation of costs and there are choices of several methods.

Depending upon the cost allocation method used, one can calculate differences in cost for producing each product.

**(3) Refining Costs per Gallon**

The Imperial Oil Limited submission to the B.C. Royal Commission gave details of its total manufacturing expenses at its Ioco Refinery in British Columbia for the years 1959 to 1963 inclusive. These expenses per barrel of crude processed ranged from a low of 71c per barrel to a high of 76c per barrel over this five year period, being approximately 2c per gallon.

In the same submission Imperial's manufacturing department prepared estimates of the costs of operating a conventional refinery, with the capacity of 20,000 barrels a day of crude oil. The refinery was theoretically designed to run light Canadian crude and produce gasolines and light fuels in the ratio of one barrel of gasoline to one barrel of light fuels. This theoretical refinery was chosen as being representative of the kind and size of refinery which a new refiner might build if just entering the B.C. market. The estimated operating costs of this refinery are shown in Table 132.

Operating at capacity, its operating costs, excluding fuel, amount to 68.4c per barrel which is approximately 2c per gallon. The amounts allowed for depreciation and refinery burden are more than half the total cost of refining.

In a refinery the fixed costs that do not vary with the amount of oil processed are a large percentage of the total (approximately 90%). The variable costs that fluctuate with the amount of oil processed are a small percentage of the total (approximately 10%).

Table 132  
Refinery Costs: Estimated Operating Costs  
Conventional 20,000 B/D Refinery Capacity Operation

Cost Items	Costs Cents per Barrel of Crude Oil
Fixed—Operating Labour .....	5.9c
Maintenance Labour .....	6.5
Maintenance Material .....	3.2
Property Taxes and Insurance .....	3.2
Refinery Burden .....	11.2
Administrative and Research .....	5.7
Depreciation .....	24.4
Total .....	60.1c
Variable—Utilities .....	3.1
Chemicals and Catalyst .....	3.6
Additives .....	1.6
Total .....	8.3c
Total Operating Costs Excluding Fuel (per barrel) .....	68.4c
(per gallon) .....	2.0c
Footnote: Fuel .....	20.9c
Crude Oil (B.C.) .....	\$3.20
Crude Oil (Alberta) .....	\$2.65

Source: Gasoline Marketing Enquiry Records.

Accordingly, when a refinery operates at or near capacity, the fixed costs are spread over a larger number of barrels and the cost per barrel is lower. Imperial's calculations on the theoretical refinery indicate that fixed costs per barrel increase to 75c if the refinery operates at 80% of capacity and increase to \$1.00 if the refinery operates at 60% of capacity. Within this range accordingly the cost of refining would vary from approximately 2c per gallon to 3c per gallon.

The cost of refining varies from refinery to refinery and also varies within a refinery from time to time.



Within a refinery it will vary with variations in the ratio of throughput to capacity and with variations in the yields and prices of the various products. The cost per barrel of refining also varies with the type of crude being processed and the products it is producing in response to the current market demand. As between refineries, costs of processing a barrel of crude will differ due to differences in refinery size and differences in capital costs of refining equipment.

In general —

- (a) the larger the refinery, the lower the capital investment is per barrel of capacity (see Chart 77).
- (b) the larger the refinery, the lower the operating costs are per barrel of capacity (see Chart 78).
- (c) the nearer the refinery operates to capacity, the lower its operating costs per barrel are (see Chart 79).
- (d) to increase the yield of a particular product, by changing the operating conditions in the various processing units, and by changes in the blending of intermediate streams, increases unit costs because at extreme ends of a range of relative yields, operations become more difficult and costly than in the middle of the range.

Alberta refineries range in capacity from a low of 4,000 barrels per day to a high of 30,000 barrels per day, with five of the six producing in excess of 10,000 barrels per day. They are all operating at practically their maximum capacity.

Having regard to the many variables such as the capacities of the refineries, the processes and equipment used, the types of crude available, and the normal product yield, the cost of refining a gallon would probably range from something less than 2c per gallon to something over 3c per gallon.

Probably the majority of Alberta's oil is refined at a cost of less than 3c per gallon.

#### (4) Factors Affecting Costs & Price of Refining Gasoline

Table 133  
Elementary Illustration of Refinery Economics

	Approx. Cost	
	\$ Per Bbl.	c. Per Gal.
Cost of crude at Refinery .....	\$2.65	7.57
Cost of Refining .....	0.90	2.57
Cost of all refined products .....	\$3.55	10.14c

The average cost of all refined products is 10.14c per gallon.

##### Refined Products Produced from 1 Bbl.

	Gals.
Approx. 60% gasolines .....	21.00
" 20% Middle Distillates (diesel, kerosene, etc.) .....	7.00
" 17% Bunker Fuels, etc. ....	5.95
" 3% Process losses (heating, evaporation) .....	(1.05)

35 gals. (34 gals. net)

There are alternate fuels for bunker and for middle distillates which dictates their prices. The balance of the total cost of refined products must be realized from gasolines for which there are no alternate fuels. The cost of producing refined products can be recovered from those products as follows:

Obtainable from Bunker .....	6 gals	@	0.05	0.30
Obtainable from Middle Distillates .....	7 gals	@	0.15	1.05
Minimum required from gasolines .....	21 gals	@	0.10½	2.20
	34 gals			<u>\$3.55</u>

##### Cost of gasolines:

Based on the "price" fixed by the oil industry for its crude, gasolines "cost" approximately 10½c per gallon.

Oil Company Questionnaires indicated that in Alberta the refinery intake volume of crude was approximately equivalent to the volume of refined products produced.

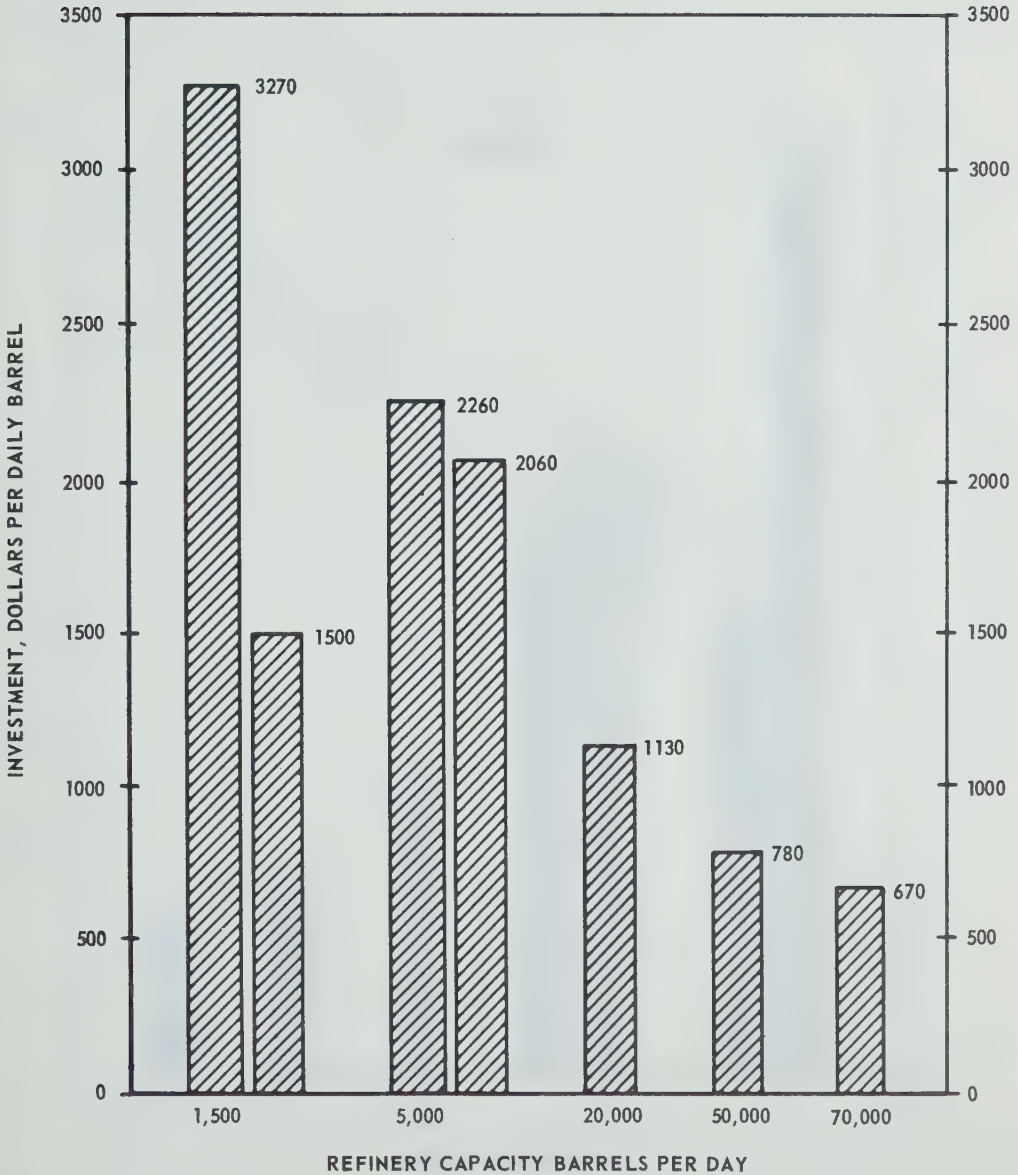
Process losses due to heating, evaporation and flaring etc., were offset approximately by process gains in volume.

Source: Gasoline Marketing Enquiry Records.

CHART 77

## REFINERY CAPITAL INVESTMENT

PER BARREL OF CAPACITY

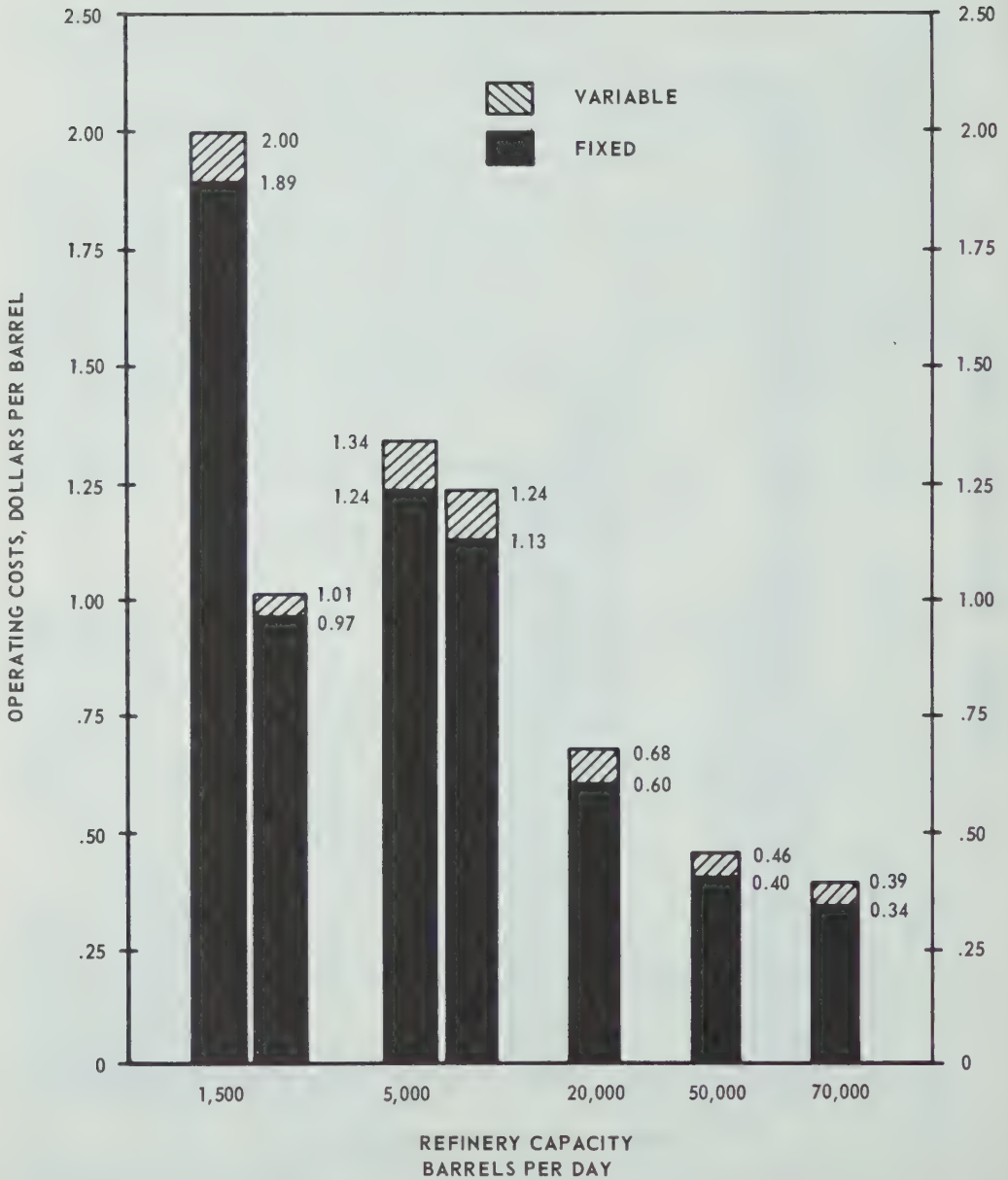


SOURCE - IMPERIAL OIL LIMITED ESTIMATES

CHART 78

# REFINERY OPERATING COSTS

PER BARREL OF CAPACITY  
(EX FUEL)

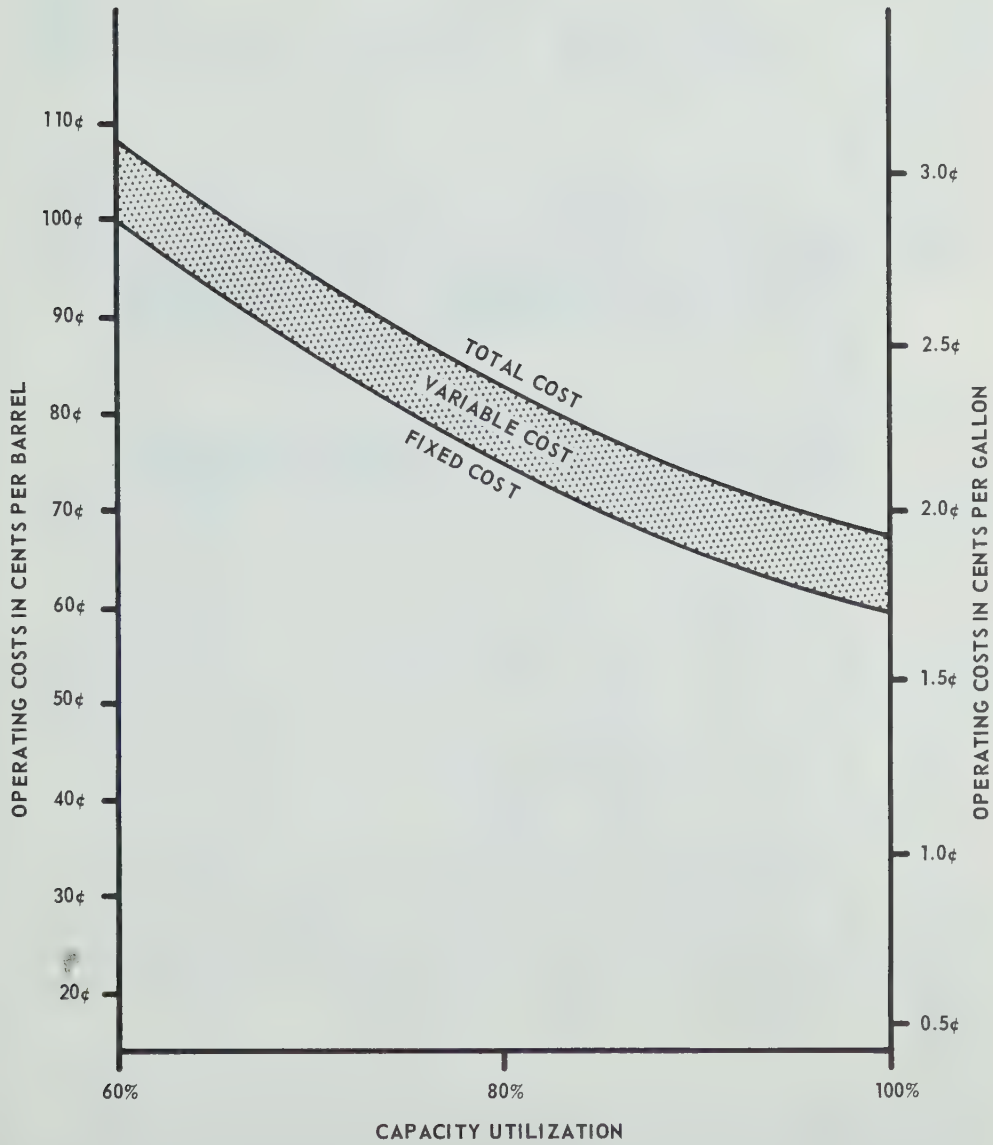


SOURCE - IMPERIAL OIL LIMITED ESTIMATES

CHART 79

# OPERATING COSTS vs CAPACITY UTILIZATION

20,000 BARREL PER DAY REFINERY



SOURCE: IMPERIAL OIL SUBMISSION



CHART 80

# U.S. REFINERY INPUT AND OUTPUT

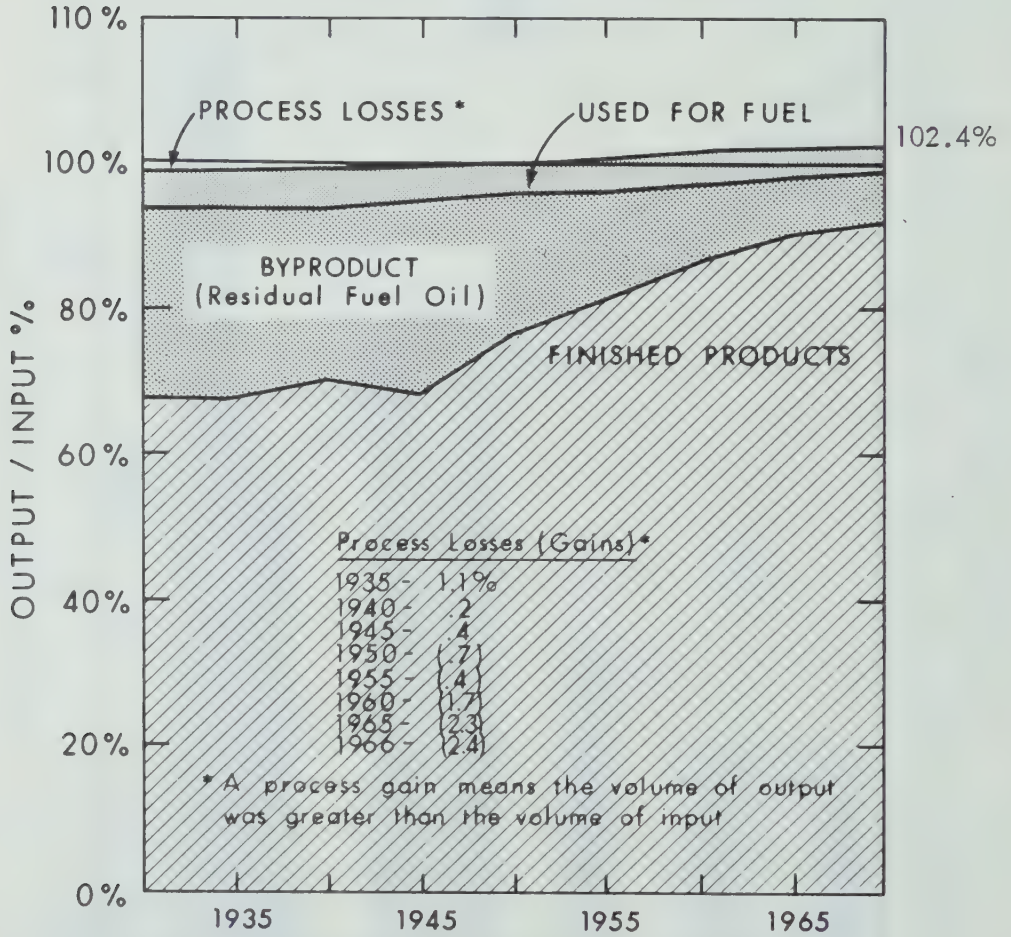


Table 134

## Some Factors Affecting Price of Gasoline

Cost of one barrel of 41 degree gravity sweet crude oil at Edmonton .....	\$2.85
Refining cost per barrel (assumed) .....	0.90
Cost of refined products resulting from one barrel of crude .....	<u>\$3.75</u>

By varying the type of crude oil used or by varying the refining procedures, you can vary the percentages produced of the different refined products.

A barrel of crude oil contains approximately 35 gallons and when it is refined it can produce products approximately as follows:

Refined Products	Percentage	Gallons
Bunker oil etc. ....	17% of 35 gallons	5.95
Middle Distillates (diesel fuel, kerosene etc.) .....	20% of 35 gallons	7.00
Gasolines .....	60% of 35 gallons	21.00
Loss (due to heating, evaporation, flaring) .....	3% of 35 gallons	1.05
	<u>100%</u>	<u>35.00</u>

Average cost per gallon of all refined products (from gasoline to Bunker oil) is \$3.75 divided by 34 gallons of various products which equals 11c per gallon.

The prices obtainable for bunker oil and middle distillates are dictated by alternate fuels or energy sources, so they have to be sold at prices competitive to such alternates. The balance of the total cost of refined products (\$3.75) resulting from one barrel of crude must be recovered from the sale of gasoline.

Source: Gasoline Marketing Enquiry Records.

Table 135

## Variable Factors Affecting the Cost of Gasoline

There are variations in prices of refined products. Bunker fuels may sell from 4c to 7c per gallon. Middle distillates may sell from 12c to 15c per gallon.

Let us examine 2 illustrations which indicate the effect on the cost of a gallon of gasoline by a variation in the realization from one of the other refined products, in these cases, middle distillate.

Illustration 1

Refined Product	%	Gallons Sold	Price per gallon without tax	Total
Bunker .....	17	6	\$0.05	\$0.30
Middle Distillate .....	20	7	0.15	1.05
Gasoline .....	60	21	0.105	2.20
Loss .....	3	Nil	Nil	Nil
	<u>100%</u>	<u>34</u>		<u>\$3.55</u>

Illustration 2

Refined Product	%	Gallons Sold	Price per gallon without tax	Total
Bunker .....	17	6	\$0.05	\$0.30
Middle Distillate .....	20	7	0.12	0.84
Gasoline .....	60	21	0.115	2.41
Loss .....	3	Nil	Nil	Nil
	<u>100%</u>	<u>34</u>		<u>\$3.55</u>

Source: Gasoline Marketing Enquiry Records.

Depending on what is realized from Bunker and Middle Distillates, the balance of the cost of a barrel of refined products has to be recovered from the gasoline. In one illustration above the cost of a gallon of gasoline is 10.5 cents and in the other illustration the cost of a gallon of gasoline is 11.5 cents.

The "cost" of a gallon of gasoline is increased by Federal Tax. The Federal Tax is approximately

1.9 cents on regular gasoline

2.4 cents on premium gasoline

In the two cases illustrated above the refinery cost for regular gasoline plus Federal Tax would be:—

Refinery cost per gallon .....	10.5 cents	11.5 cents
Federal Tax per gallon .....	1.9 cents	1.9 cents
	<u>12.4 cents</u>	<u>13.4 cents</u>

Let us now apply one of the larger discounts from dealer posted tank wagon price to determine how much the resulting “purchase price” would exceed refinery “cost price”

Dealer posted tank truck price — regular .....	19.8 cents per gallon
Discount to large wholesaler .....	6.2 cents per gallon
Price paid by wholesaler to refiner .....	<u>13.6 cents per gallon</u>

#### (5) Refinery Prices for Refined Products

It was noted in the case of crude oil that prices quoted by “cartel” companies at various points in the world appear to be uniform at each such point for the same quality of crude. The same appears to be true in prices of refined products.

Refined products prices in 1965, published in **Petroleum Press Service**, show F.O.B. prices for bulk cargo shipments in U.S. cents per American gallon at various places in the world.

For instance, two companies in the Caribbean show the same price for the same grade of motor gasoline.

Company	Place	Motor Gasoline	Price Per Gal.
Esso	Aruba	87R	7.8c
Shell	Curacao	87R	7.8c

One company in the Caribbean and another company in the Middle East also show the same price for the same grade of motor gasoline.

Company	Place	Motor Gasoline	Price Per Gal.
Shell	Curacao	95R	9.7c
B.P.	Abadan	95R	9.7c

In widely separated places there is a marked similarity in prices for the same grade of motor gasoline.

Company	Place	Motor Gasoline	Price Per Gal.
Shell	Curacao	83R	7.1c
Shell	P. Bukom, Singapore	83R	7.9
Mobil	Sungei Gerong	83R	7.7
B.P.	Abadan	83R	7.2
Caltex	Ras Tanura	83R	7.4

#### Pricing on Exchanges and Transfers

In an integrated company the internal transfers of crude oil or petroleum products from one of its divisions to another do not involve prices negotiated at arms length. If prices are attached at all they are arbitrary, but in many cases it is simply a transfer of gallons or barrels to which no price is applied.

In the case of such an integrated company, where the company allocates its profits is a matter of internal bookkeeping. This would normally be adjusted in such a way as to be most advantageous to the company.



For instance the profit picture of the refining division can be altered by increasing the transfer price for crude oil coming in from the producing division, or by reducing the transfer price for refined products going out to the marketing division.

In general a high transfer price for crude oil would tend to increase profit in the producing division where exploration expense write offs, depletion allowances and other tax advantages are available which do not apply to manufacturing operations, transportation operations or marketing operations.

Large volumes of refined products are "transferred" or "exchanged" between integrated companies. The refining division of company A will deliver to the marketing division of company B at one location and in exchange the marketing division of company A will take delivery from the refining division of company B in another location. There are tremendous volumes of these inter company "exchanges" of product in one location for product in other locations. These exchanges may take place in different marketing regions and the deliveries and accounting may extend over prolonged periods.

If products are exchanged a transfer price may not be necessary and may not be expressed. If a transfer price is expressed it does not necessarily represent a true arms length price e.g. if A has a gallon of gasoline worth 40c in a place where B needs it and B has a gallon of gas worth 39c in another place where A needs it,

1. A could trade his gallon for B's gallon and simply take a 1c differential payment from B.
  2. A could transfer his gallon to B at a transfer price of \$1.00 and B could transfer his gallon to A at a transfer price of 99c, and A would receive a 1c differential payment from B.
- In either case each has obtained the other's gallon and a 1c differential has been paid.

The differential payment is arms length but the expressed transfer prices have no meaning except in their relationship to one another.

A majority of the world's crude oil and petroleum products is disposed of by transactions involving

- (a) transfers from one division or subsidiary to another division or subsidiary of the same integrated company where prices are arbitrary and not arms length; and
- (b) exchanges or transfers between "cartel" companies where the expressed transfer prices may have little meaning by themselves.

Only a small fraction of the total world transactions are truly at arms length, and most of these take place at "established market prices", such prices having been established by internal non arms length transactions, exchanges or transfers.

**Refinery Prices — to other integrated oil companies** are difficult to determine. Integrated oil companies engaged both in refining and marketing, transfer very large volumes of gasoline and other refined products to one another at the refining level. This may be done by "exchange agreements" where no price is needed or expressed. Under such an agreement Imperial would take delivery of products from a Texaco refinery in one location in exchange for Texaco taking delivery of equivalent refined products from an Imperial refinery at another location. Other agreements may provide simply for processing by a refinery for a fee, or a combination of a purchase of crude or semi-refined products plus a processing fee resulting in the delivery of refined products. Due to the nature of these transactions, it is difficult to ascertain or compare their prices with the prices of other sales of refined products.

However, as an example, crude was processed through an Alberta refinery, and a very large volume of the refined product was transferred to another refinery of the same company at a "price" of 8.41c per gallon.



In another large volume transaction refined products produced by the Alberta refinery of one company were transferred to another company at 10.45c per gallon.

In answer to question 78, the oil companies provided the Committee with particulars of purchases by their marketing departments from refineries during 1965, and the average price per gallon paid for each grade. The "cartel" brand companies reported purchases of regular grade gasoline at prices ranging from a low of 10.4c per gallon to a high of 12.22c per gallon, being a weighted average purchase price of 11.01c per gallon.

In answer to question 77 (e), the oil companies provided the Committee with particulars of sales of regular gasoline to major oil companies during 1965 and the average sale price per gallon. The "cartel" brand companies reported sales of regular grade gasoline at prices ranging from a low of 10.6c per gallon to a high of 12.6c per gallon, being a weighted average sale price of 12.09c per gallon.

In answer to question 110, the oil companies provided the Committee with particulars of sales to major oil companies during 1965, showing the volume, the grade of gasoline, and the price per gallon. The "cartel" companies reported sales of regular grade gasoline at prices ranging from a low of 9c to a high of 13.7c per gallon, with a weighted average sale price of 11.25c per gallon.

**Refinery Prices — to jobbers or wholesalers** are not posted or fixed. Jobbers or wholesalers who purchase gasoline from refineries for resale under their own brands, usually purchase at tendered or negotiated prices. The jobbers or wholesalers are not integrated companies and do not have refining operations of their own. Their volume of purchases is not as large as the transfers and exchanges between major integrated companies, and they do not receive as favorable a price.

In answer to question 78, the jobbers, wholesalers and off-branders reported an average purchase price for regular gasoline (including Federal Tax) of 14.5c per gallon. Allowing 1.9c per gallon for Federal Sales Tax, the price they paid, excluding tax, would be 12.6c per gallon.

In answer to question 77 (d), the integrated companies with refineries reported sales to jobbers, wholesalers and off-branches of regular grade gasoline, at prices ranging from a low of 11.82c per gallon to 14.1c per gallon, being a weighted average sale price of 12.67c per gallon.

In answer to question 111, the integrated companies with refineries reported sales to off-branders, jobbers and wholesalers indicating the volume of purchase, the grade, and the price per gallon. They reported sales of regular grade gasoline at prices ranging from a low of 10.87c per gallon to a high of 18.7c per gallon, being a weighted average sale price of 12.43c per gallon.

Table 136  
Refining Division Prices (cents per gallon) — Alberta, 1965

To Other Integrated Oil Companies with Refineries		(excluding Federal Sales Tax)		
Question		Low	High	Weighted Average
78	Purchases .....	10.4	12.22	11.01
77(e)	Sales .....	10.6	12.6	12.09
110	Sales .....	9.0	13.7	11.25
108	Transfer .....	8.41		
108	Transfer .....	10.45		
To Jobbers or Wholesalers		(excluding Federal Sales Tax)		
Question		Low	High	Weighted Average
78	Purchases .....			12.6
77(d)	Sales .....	11.82	14.1	12.67
111	Sales .....	10.87	18.7	12.43

Source: Gasoline Marketing Enquiry Records.

## CHAPTER 31. MARKETING DIVISION COSTS AND PRICES

### (1) Gasoline Marketing Cost

The marketing division of an integrated oil company performs the wholesaling function of distributing and selling the refined products produced by the refining division.

When it is considered that marketing adds about 7c per gallon to the price of gasoline, as compared with total costs of exploration and production of approximately 3c, and costs of refining of approximately 3c, it is apparent that the items of marketing cost are significant.

**Basic marketing costs** included by the oil companies in the costs of their marketing divisions include the following:

- (a) credit cards,
- (b) advertising,
- (c) training of service station operators,
- (d) transportation within a limited range,
- (e) current expenditures for service stations, including renovation, maintenance and repair,
- (f) administration, sales, accounting, and general overhead.

**Additional marketing costs** are incurred if marketing takes place at an outside point at a distance from the refinery supply point, and these additional costs include—

- (a) the additional cost of transportation to the outside point,
- (b) the additional cost of storage and handling at the outside point,
- (c) the additional cost of commissions payable to the agent at the outside point.

**The basic costs** of the marketing division are covered by the marketing division's posted prices at the company's refinery supply points.

**The additional costs** of marketing at outside points are covered by increased posted prices at the outside point, the increase in posted price being roughly equivalent to the increase in marketing cost for any particular point.

The marketing division markets all of the products marketed by the oil company, and consequently there is the usual difficulty of allocating costs between products.

However, gasoline accounts for the largest volume of any product marketed and it also accounts for the most dollars. If the items of expense, making up the total marketing cost, are each divided by the number of gallons of gasoline sold, you express marketing costs in cents per gallon of gasoline which are in the right ratio to one another so far as each item of expense is concerned. However, these costs per gallon are somewhat too high for gasoline alone, because some portion of these marketing costs should be allocated to other products marketed. In other words these are the maximum costs of marketing that could be allocated to gasoline if the entire cost were incurred for marketing gasoline alone, but in some items of marketing expense gasoline's share would be less than the amount shown.

### (2) Credit Card Cost

In British Columbia the Royal Commission on Gasoline Price Structure reported in part as follows:

"At the outset of the hearings the Consumers' Association of Canada attacked credit cards on the ground that their expense was borne by the cash customer as well as the credit customer". "The Association thought there should be a discount for cash customers".

The report then compared the cost of credit cards based on total sales of gasoline with the cost based on credit card sales only as follows:

**"Estimated Cost of Credit Cards Based on Total Sales of Gasoline by Various Companies**

**As Reported by the  
Oil Companies**

**As Estimated by Commission  
Accountant**

**Cents Per Gallon**

0.58c  
0.67c  
1.23c  
0.56c  
0.35c

0.64c  
0.69c  
1.22c  
0.57c  
0.35c

Based on the sales of gasoline through credit cards, the estimated figures would be, for these five companies:

**Cents Per Gallon**

1.74c  
1.40c  
2.76c  
1.61c  
1.56c

The weighted average cost of credit cards is about ½c per gallon of total gasoline sales of service stations and about 1½c per gallon of credit card sales.

Other products and services are charged on credit cards but I consider that such items would have no material effect on the average costs determined above."

"... the billing cost of gasoline credit cards is a high percentage of the value of the sale, net of tax. It may well be higher than the cost of credit incurred in the retailing of any other kind of merchandise."

His Honor Judge Morrow came to the conclusion that the ideal solution would be to give a discount to those who pay cash for their gasoline. He stated: "I consider that the cost of the credit card system should be borne by the individual seeking credit."

It was to be expected that costs of credit cards in Alberta would be very similar to such costs elsewhere. In Alberta, based on oil company replies to question 98, and on gallonages reported in questionnaires 11 and 14, the credit card costs of the "cartel" companies appear to be as follows:

Table 137  
**Cost of Credit Cards**

**Based on Total Sales  
of Gasoline to the  
Automotive Market**

**Cents per gal.**

0.31  
0.45  
0.62  
0.83  
0.84

0.67 weighted average

**Based on Credit Cards Sales  
of Gasoline to the  
Automotive Market**

**Cents per gal.**

1.20  
1.23  
1.30  
1.34  
2.50

1.38 weighted average

Source: Gasoline Marketing Enquiry Records.

The G.M.E. Committee agrees with the conclusion of His Honour Judge Morrow that the cost of the credit card system should be borne by those using it.

In our opinion, the cost of credit cards should be eliminated as an element entering into the wholesale price of gasoline, which would enable the reduction of the posted dealer tank wagon price by a little more than ½c per gallon. The retail price at the pump could be uniform for both cash customers and credit card customers. The oil company could recover its cost of credit cards by adding to each credit card customer's monthly statement a credit service charge of approximately 1½c per gallon based on the purchases actually made on credit by that customer and on the cost of the credit.

Such a system would give each customer the individual choice of whether to buy for cash or credit, and the customer who did not use the credit, would bear no part of its cost. Under the present system large numbers of cash customers bear part of the cost of credit which they do not use.



Control of retail marketing and the restriction or elimination of competition in retail marketing appears to be one of the more important objectives of the “cartel” companies.

It is obvious that the attractions and advantages of a credit card which is universally acceptable wherever the motorist happens to desire to travel, has important competitive advantages. The smaller independent company, whether an “off-brand” wholesaler or an “other brand” integrated marketer, which is trying to establish itself in the market, can’t be competitive with the “cartel” subsidiaries in such areas as national and international brand advertising, and the number of outlets for which its credit card is acceptable. The new entrant into the business of oil marketing faces a long uphill struggle. As the major marketers provide “free” credit cards the new entrant has to incur the expense of a credit card system even though it can’t be as useful to his customers as those of the international “cartel” companies.

However, if customers directly bear the cost of the credit that they use, the customer to whom widespread credit is less important may elect to save this cost. The independent oil marketer may then have a more equal opportunity for competing for the business of such customers.

**(3) Advertising Cost**

To promote the sale of their products, oil companies engage in many forms of advertising.

By dividing the Alberta share of advertising expense by the number of retail outlets in the province, the cost of retail advertising can be expressed in dollars per outlet. The advertising expenditures of the “cartel” subsidiaries operating in Alberta expressed in dollars per retail outlet were as follows:

	\$ per Retail Outlet
	\$237.00
	398.00
	441.00
	446.00
	750.00
	793.00
	<hr/>
Weighted average advertising cost .....	\$501.00

By dividing the advertising expense allocated to the province of Alberta by the automotive gallonage sold in Alberta, you can express the cost of advertising in cents per gallon. The advertising expense of the “cartel” subsidiaries marketing in Alberta expressed in cents per gallon was as follows, during 1965:

	Cents per Gallon
	0.34 cents
	0.56 cents
	0.57 cents
	0.59 cents
	0.77 cents
	0.84 cents
	<hr/>
Weighted average advertising cost .....	0.61 cents

**(4) Training of Service Station Operators**

The cost of training service station operators is minimal. It appears to be only a token expenditure and has very little impact on the cost of marketing. Lip service is paid to the concept but no company conducts a widespread and effective program.

The cost of training reported by “cartel” subsidiaries expressed in cents per gallon of automotive gasoline gallonage was as follows:

	0.036c
	0.040c
	0.047c
	0.073c
	<hr/>
Weighted average training cost .....	0.046c



## (5) Transportation Cost

Oil company marketing divisions make very large expenditures for the transportation of refined products to markets. However, only a small percentage of these costs is included in the basic cost of the marketing division. A very large percentage of these costs are "additional costs" which are recovered from corresponding additions to the posted prices applicable in the outside point to which the refined products have been transported. For instance, the posted price in an outside point like Athabasca would exceed the posted price in the refinery supply point, Edmonton, by an amount adequate to cover the cost of transportation from Edmonton to Athabasca. The additional transportation cost incurred is accordingly recovered by an addition to the posted price.

Three principal methods of transportation are used for delivery of refined products—

- (a) railway tank car,
- (b) the company's own fleet of tank trucks,
- (c) outsiders' fleets of tank trucks.

Which of these methods is used is a matter of judgment based on the circumstances of the delivery and its economics.

Transportation may be divided into two broad categories—

- (a) "transportation in" to company owned storage plants; and
- (b) "transportation out" to customers.

In either of these categories there is the choice of the three methods of transportation.

"Transportation in" to company bulk plants at outside points may be by tank car, by the company's own fleet of tank trucks, or by outsiders' fleet of tank trucks. This category of transportation accounts for a majority of the transportation cost of a marketing division. This cost of transportation to outside points is an "additional cost" which is entirely recovered out of higher posted prices applicable to outside points.

The category of "transportation out" to customers may be further subdivided as follows:—

- (a) from refinery supply point to customer by railway tank car, which may be used in such cases as turbo fuels for air bases, asphalt for construction contractors, gasolines for large industrial users, etc., and in this category the cost of transportation is recovered from the customer;
- (b) from refinery supply point to customer by outsiders' fleet of tank trucks, which may be used for such deliveries as asphalt to construction contractors and petroleum products to industries, and in this category the cost of transportation is recovered from the customer;
- (c) from bulk stations by bulk agents and farm dealers to commercial customers and farm customers, and in this category the cost of transportation is the transportation portion of commissions on sales which average  $1\frac{1}{2}$  cents per gallon and are recovered from the higher posted prices for "commercial consumers" and "other consumers" which exceed dealer posted prices by  $1\frac{1}{2}$  cent per gallon, and if the place of delivery requires "extra cartage" this is recovered from the customer;
- (d) from refinery supply point to customer by the company's own fleet of tank trucks, which may be used for deliveries to such customers as service stations, and other retail outlets, a portion of which transportation cost is included in the basic marketing cost and covered by the posted dealer tank wagon price at the refinery supply point, and a portion of which is recovered in the case of deliveries to outside points by additions to the posted prices applicable in such outside points.

In general, tank truck deliveries to service stations in refinery supply points, such as Edmonton and Calgary, are made by the company's own fleet of tank trucks; no direct charge for delivery is made to the service station operator; and the cost of such transportation is recovered from the posted dealer price applicable

at the refinery supply point. This is the only portion of the marketing division's total transportation expense that forms part of the marketing division's basic cost which has to be recovered from the posted dealer tank wagon price at the refinery supply point.

The expenditures of one of the "cartel" subsidiaries for transportation in Alberta during 1965 were expended for the various categories of transportation as follows:—

(1) "Transportation in" to the company bulk plants	66%
(2) "Transportation out" to customers,—	
(a) from refinery supply point to customer by railway tank car (commercial consumers)	13%
(b) from refinery supply point to customer by outsider's fleet of tank trucks (commercial consumers)	5%
(c) by bulk agent or farm dealer to customer (commercial or farm)	9%
(d) from refinery supply point by its own fleet of trucks (automotive, commercial and farm)	7%
Total transportation costs	<u>100%</u>

The transportation cost of the deliveries to service stations (not recovered from higher posted prices applicable to deliveries to outside points) is the only transportation not accounted for by additions to price, and therefore is included in the basic cost of the marketing division. For the above company this would be a fraction of the cost of deliveries by its own fleet, the entire cost of which is only 7% of total transportation costs.

The dealer posted tank truck price in the vicinity of a refinery supply point is the delivery price to the dealer. Accordingly, the transportation cost of the deliveries to service stations in the vicinity of a refinery supply point is included in the basic cost of the marketing division.

In the case of a service station at an outside point, which is supplied by the oil company's own fleet of tank trucks, the dealer posted price at the outside point is increased by an amount equal to the lowest quoted public transportation rates from the refinery supply point to that outside point, so the transportation cost is recovered from the higher price.

For the above company only 7% of its total transportation costs were accounted for by its own fleet of trucks. Deliveries by its own fleet were broken down as follows:

(a) deliveries to service stations by tank truck	5%
(b) other deliveries, such as aviation fuel, deliveries of packaged goods by stake truck, etc.	2%
Total transportation by own fleet	<u>7%</u>

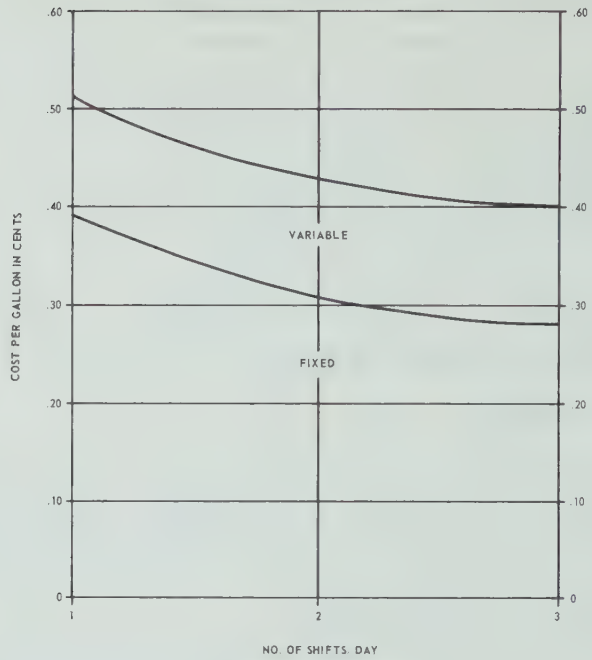
Less than one-half of its delivery costs to service stations by its own fleet would be incurred for deliveries in the vicinity of refinery supply points, which would be approximately 2½% of total transportation costs. For deliveries by its own fleet of tank trucks to service stations in outside points, the company would recover its transportation cost from the higher posted prices applicable to deliveries to outside points.

Dividing the above company's total costs for the transportation of motor gasolines and light products in its own fleet of tank trucks, by the total volume of gasolines and light products transported by that fleet in 1965, the cost per gallon for transportation was 0.34 cents per gallon. This includes transportation to stations in the vicinity of refinery supply points where nothing is added for transportation, and transportation to outside points where the cost of transportation is recovered from the increased posted price applicable to that outside point.

CHART 81

IMPERIAL OIL LIMITED  
DISTRIBUTION ECONOMICS OF THROUGHPUT

EXAMPLE: SHIFT VARIATION ON TRUCK COST  
(6000 GAL. CAPACITY TRUCK)

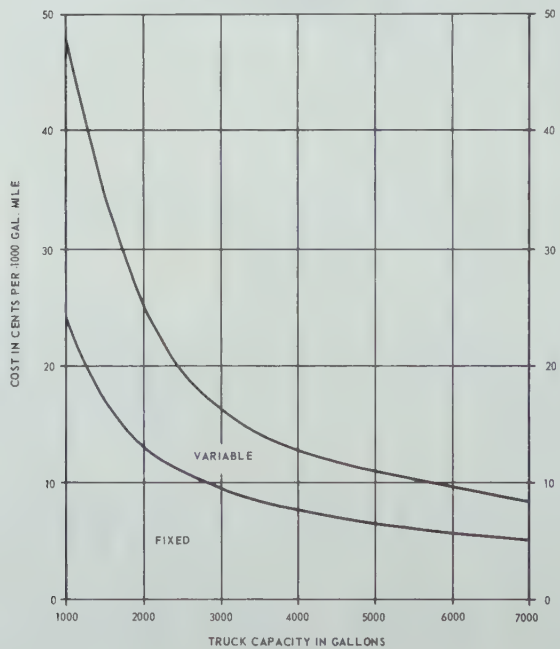


SOURCE - IMPERIAL OIL LIMITED

CHART 82

IMPERIAL OIL LIMITED  
DISTRIBUTION ECONOMICS OF SCALE

EXAMPLE: TRUCKING COSTS  
IN CENTS PER 1000 GAL. MILE



SOURCE - IMPERIAL OIL LIMITED



Approximately 50% of automotive volume is delivered to Edmonton and Calgary service stations. Fifty percent of total transportation costs of its own fleet would more than cover such deliveries. Dividing 50% of total transportation costs by the gallonage delivered in Edmonton and Calgary gives a cost per gallon for transportation of less than 4/10 of a cent per gallon.

Imperial Oil in its submission, to the B.C. Royal Commission, dealt with distribution economics. Imperial pointed out that fixed costs represent the big percentage of total tank truck operating costs. In densely populated, high volume, areas there is opportunity to use tank trucks on more than one shift. This of course means larger volume per truck and a lower unit cost per gallon. Chart 81 prepared for Imperial's submission depicts a 6,000 gallon tank truck and the total cost per gallon based on a 1, 2 and 3 shift operation. The variable costs are the same per gallon of delivery, while the fixed costs are lower due to the larger volume handled by the truck.

Chart 82 is another example prepared by Imperial showing the operating savings possible with larger trucks in densely populated areas, such as our refinery supply points where service stations have large storage capacity. This chart shows the ability of a large capacity truck to maintain its "cost per 1,000 gallon mile" at a significantly lower level than units of smaller capacity. For example, it can be seen that the cost of delivering 1,000 gallons of product one mile can be reduced from approximately 25 cents in a 2,000 gallon truck to less than 10 cents in a 7,000 gallon truck.

Approximately 50% of automotive gallonage is delivered to service stations in Edmonton and Calgary where deliveries can be made by the marketing division's own fleet of large tank trucks operating at conditions of minimum cost. It would appear that transportation expense of the marketing division that has to be recovered from the dealer posted tank truck price at the refinery supply point would be approximately 1/2 cent per gallon or less.

**(6) Service Station Costs**

One of the largest expenses in the budget of a marketing division is expense incurred in connection with the provision of service station outlets. Most oil companies have two budgets for service station expenditures, one for current expenditures, and one for capital expenditures.

From an income tax standpoint any item which can be classified as a current expenditure is most advantageous, because the full amount of the expense can be deducted from income in the year of expenditure. An expenditure on service stations classified as a capital expenditure has to be depreciated over a term of years and it is only the depreciation which can be charged as an expense against income.

The "cartel" subsidiaries marketing in Alberta collectively reported service station expenditures for the year 1965 totalling as follows:

Capital expenditures .....	\$3,121,559.00
Current expenditures .....	\$4,129,552.00
Total .....	<u>\$7,251,111.00</u>

Although a number of new service stations were built in Alberta during 1965, it is to be noted that current expenditures on service stations exceeded capital expenditures on service stations.

Apart from these substantial expenditures, a portion of the administration and general overhead expense relates directly to the acquisition and maintenance of the service station network, including such items as the salaries and overhead of those members of the marketing division staff engaged in planning for service stations, designing and engineering service stations, and engaged in the acquisition and supervision of construction of service stations.



The expenditures of the "cartel" subsidiaries engaged in marketing in Alberta on service stations during 1965 expressed in cents per gallon of gasoline sold to the automotive market are as follows:

Table 138  
**Cost of Providing Service Stations, Alberta, 1965**  
(cents per gallon, based on gallonage sold by all outlets)

	Current Expenditures	Capital Expenditures	Total Expenditures
	0.71 cents	2.55 cents	3.26 cents
	1.48 cents	1.30 cents	2.78 cents
	2.21 cents	0.55 cents	2.76 cents
	2.28 cents	1.25 cents	3.53 cents
	3.60 cents	1.56 cents	5.16 cents
Weighted average .....	1.87 cents	1.41 cents	3.28 cents

Source: Gasoline Marketing Enquiry Records.

The weighted average current expenditures of the oil company marketing divisions for service stations of 1.87 cents per gallon is one of the largest single items of cost of the marketing division. These current expenditures totalling \$4,129,552.00 for the "cartel" subsidiaries were supplemented by a further \$3,121,559.00 of capital expenditures for service stations.

Current and capital expenditures on service stations, expressed in cents per gallon of automotive gallonage, amount to 3.28 cents, which exceeds the total cost of exploration and production of approximately 3 cents per gallon.

It would appear to be fair that the expenditures of the marketing division in providing service stations for its own lessees should be charged against the gallonage sold by those lessees rather than against the total automotive gallonage. Accordingly, the expenditures on service stations during 1965 made by the "cartel" subsidiaries engaged in marketing in Alberta, expressed in cents per gallon of gasoline sold by their lessees to the automotive market, are as follows:

Table 139  
**Cost of Providing Service Stations, Alberta, 1965**  
(cents per gallon, based on gallonage sold by leased outlets)

	Current Expenditures	Capital Expenditures	Total Expenditures
	1.17 cents	4.17 cents	5.34 cents
	2.79 cents	2.46 cents	5.25 cents
	2.81 cents	1.55 cents	4.36 cents
	3.42 cents	0.85 cents	4.27 cents
	4.58 cents	1.98 cents	6.56 cents
Weighted average .....	2.91 cents	2.20 cents	5.11 cents

Source: Gasoline Marketing Enquiry Records.

The cost of acquiring service station sites and building and maintaining service stations is an expense of retailing. In the case of an owned service station, the owner actually incurs this expense and has to recover it from his profits on retailing alone.

However, the integrated oil companies engaged in producing, refining, and marketing charge the expense of repairing, renovating, and maintaining their service stations, and of renting service stations from others, as a cost of their marketing divisions, which are primarily performing the wholesaling function. Their staffs which plan, engineer, acquire and construct service stations normally are a part of the marketing divisions' salary expense and overhead. There is nothing wrong with this from an internal accounting standpoint, as the integrated company incurs these costs irrespective of the division to which it is charged. However, the practice is unfair to the service station dealer who owns his own station.

The marketing division of the integrated oil company recovers its wholesaling costs out of its posted wholesale prices. One element of cost included in these wholesale prices is the cost of repairing, renovating, and maintaining their retail service stations, and renting service stations from others.

The result is that all service station dealers who purchase at dealer tank wagon prices are paying for part of the cost of providing and maintaining retail service stations owned by the oil company. This is a large item of cost, being as much as 1/3 of marketing division expense, and amounts to hundreds of thousands of dollars per company per year.

This is discriminatory against the service station dealer who owns and pays for his own service station, because in his wholesale price of gasoline he is also paying part of the cost of providing, renovating, repairing and maintaining the service station operated by the lessee who is his competitor. As independent service station owners are paying part of the cost of providing and maintaining service stations owned by the oil companies, these oil companies do not need to recover such costs from their lessees. Lessees who are not asked to pay all the costs of service stations are subsidized and have a competitive advantage over owners.

In the opinion of the Committee the wholesale price of gasoline, being the dealer posted tank wagon price, should be reduced by eliminating all costs now borne by the marketing division relating to the provision, renovation, maintenance and repair of service stations.

If an integrated oil company wishes to own service stations it should do so through a retailing division which should incur all of the costs of acquiring service station sites and all of the costs of building, rebuilding, maintaining, and repairing service stations. If the oil company wishes to lease these stations to lessees, any recovery that it chooses to obtain on account of its service station costs should be recovered from its lessees alone, by way of rentals, and should not be recovered as part of the wholesale price of gasoline charged to all retail dealers.

This would enable a reduction of the posted dealer tank wagon price by approximately 1.87 cents per gallon to all dealers, whether lessees from the oil company or independent owners. The current expenditures of the oil companies for provision of service stations, which averages 2.91 cents per gallon of lessee gallonage, will then have to be recovered from lessees as rent, and not as part of the wholesale price of gasoline paid by all dealers. This would help to rectify the discrimination which now exists against owned outlets and make them more competitive with lessees.

**(7) Administration, Sales, Accounting and General Overhead**

All basic marketing costs other than the five specific items which we have just dealt with, namely—credit cards, advertising, training, transportation, and current expenditures for service stations, have been included under the heading Administration, Sales, Accounting and General Overhead.

The amount for this item has been arrived at by deducting from each company's gross expenditure on basic marketing costs through its marketing division, the sum of the five items we have dealt with.

The administration, sales, accounting and general overhead costs of the marketing divisions of the subsidiaries of "cartel" companies, expressed in cents per gallon of gasoline was as follows during 1965.

	0.02c
	1.13c
	2.03c
	2.15c
	2.29c
	<hr/>
Weighted average cost of administration, sales, accounting and general overhead .....	1.49c

**(8) Basic Marketing Costs of Marketing Divisions**

In question 84 the Committee asked each oil company to express its average cost of marketing to all markets in cents per gallon of gasoline marketed. The subsidiaries of five "cartel" companies reported average costs in cents per gallon as follows:

### Marketing Cost to All Markets in Cents Per Gallon of Gasoline

	All Markets
	5.14c
	3.70c
	4.85c
	5.73c
	6.50c
Weighted average marketing cost .....	5.21c

The weighted average cost of marketing to all markets for the "cartel" companies collectively was 5.21 cents per gallon of gasoline.

However, the costs of marketing to the three principal markets differ, because the methods of marketing differ.

The oil companies in question 88, allocated their marketing division expenses between their three principal markets, namely—automotive, farm and industrial/commercial. By dividing the expenses for each market by the gasoline gallonage sold to that market you can express marketing costs for each market in cents per gallon of gasoline sold to that market.

As in previous cases, this item will be too high, because the cost of marketing all products is being allocated to gasoline alone.

However, on this basis and using the gallonage reported in question 88, the marketing costs of the subsidiaries of "cartel" companies marketing in Alberta during 1965 were as follows:

### Marketing Cost to Each Market in Cents Per Gallon of Gasoline

	Automotive	Farm	Industrial/ Commercial
	4.20	1.60	2.60
	4.47	4.18	6.52
	4.73	3.10	9.40
	5.20	9.50	7.80
	6.49	5.65	2.82
Weighted Average .....	4.95c	4.76c	6.61c

In the automotive market gasoline accounts for a high percentage of the gallonage of all petroleum products sold to that market. In the farm market gasoline accounts for a smaller percentage of the gallonage of all petroleum products sold to that market because many farm vehicles use diesel fuel. In the industrial/commercial market gasoline accounts for a still smaller percentage of all petroleum products sold to that market, because items such as road asphalts, industrial lubricants, kerosene, aviation fuels, etc., account for a very substantial gallonage. Accordingly, if the costs of marketing all petroleum products to a particular market are charged to gasoline alone, the per gallon costs are most accurate for the automotive market, less accurate for the farm market, and least accurate for the industrial/commercial market.

In replying to oil company questionnaire 16, one major oil company pointed out that

"The total expenditure allocated to each type of market was incurred in the marketing of all petroleum and non-petroleum products in that market and not just gasoline. (Name of oil company) normally measures its expenditures as a percentage of sales revenue. Another measure, but less meaningful because of the inclusion of expenditures for the marketing of non-petroleum products, is the marketing expenditures for each market expressed on a cents per gallon of total petroleum products basis. For each market in Alberta in 1965 this was as indicated below:

(a) automotive sales .....	4.6 cents per gallon
(b) farm sales .....	2.4 cents per gallon
(c) industrial & commercial sales .....	1.0 cents per gallon
(d) domestic heat sales .....	3.1 cents per gallon



Using oil company figures on their costs of marketing to the automotive market from question 88, and using the gallonage figures marketed to the automotive market as reported in questionnaires No. 11 and No. 14, the costs of marketing to the automotive market by the subsidiaries of the "cartel" companies expressed in cents per gallon of gasoline marketed were as follows:

Table 140  
Marketing Cost to Automotive Market — By Company  
In Cents Per Gallon of Gasoline

	Automotive
	4.46c
	4.76
	5.07
	5.97
	6.22
Weighted average cost of marketing to automotive market .....	5.19c

Source: Gasoline Marketing Enquiry Records.

Gasoline accounts for roughly half the total volume of products marketed by marketing divisions. If the costs of marketing division are allocated equally to all gallons of all products the per gallon costs of marketing would be approximately half 5.19 cents, or 2.6 cents per gallon. If gasoline should bear a greater proportion of the cost of marketing than some other products, the cost of marketing gasoline lies somewhere between 2.6 cents per gallon and 5.19 cents per gallon.

Going to the extreme of allocating all marketing division costs for all products to gasoline alone, Chart 83 shows the marketing division basic marketing cost of 5.19 cents per gallon in selling to the automotive market broken down into the various cost items which make it up, namely:—

Table 141  
Breakdown of Basic Marketing Costs to Automotive Market  
In Cents Per Gallon of Gasoline

	Automotive
(a) credit cards .....	0.67c
(b) advertising .....	0.61
(c) training .....	0.05
(d) transportation .....	0.50
(e) service stations .....	1.87
(f) administration, sales, etc. ....	1.49
Total marketing cost automotive market .....	5.19c

Source: Gasoline Marketing Enquiry Records.

If you remove current expenditures for service stations, which are a cost of retailing, and if you remove the cost of credit cards, this eliminates almost 2½ cents per gallon from the wholesale cost of marketing gasoline to the automotive market.

If these two items are removed as costs entering into the wholesale price of gasoline, this would relieve against two items of discrimination, namely—

- (a) owners of service stations would be relieved of contributing toward the cost of service stations owned by the oil company and operated by lessees; and
- (b) purchasers of gasoline who don't use credit cards would be relieved of contributing toward the cost of credit cards.

(9) Marketing Division Mark-up

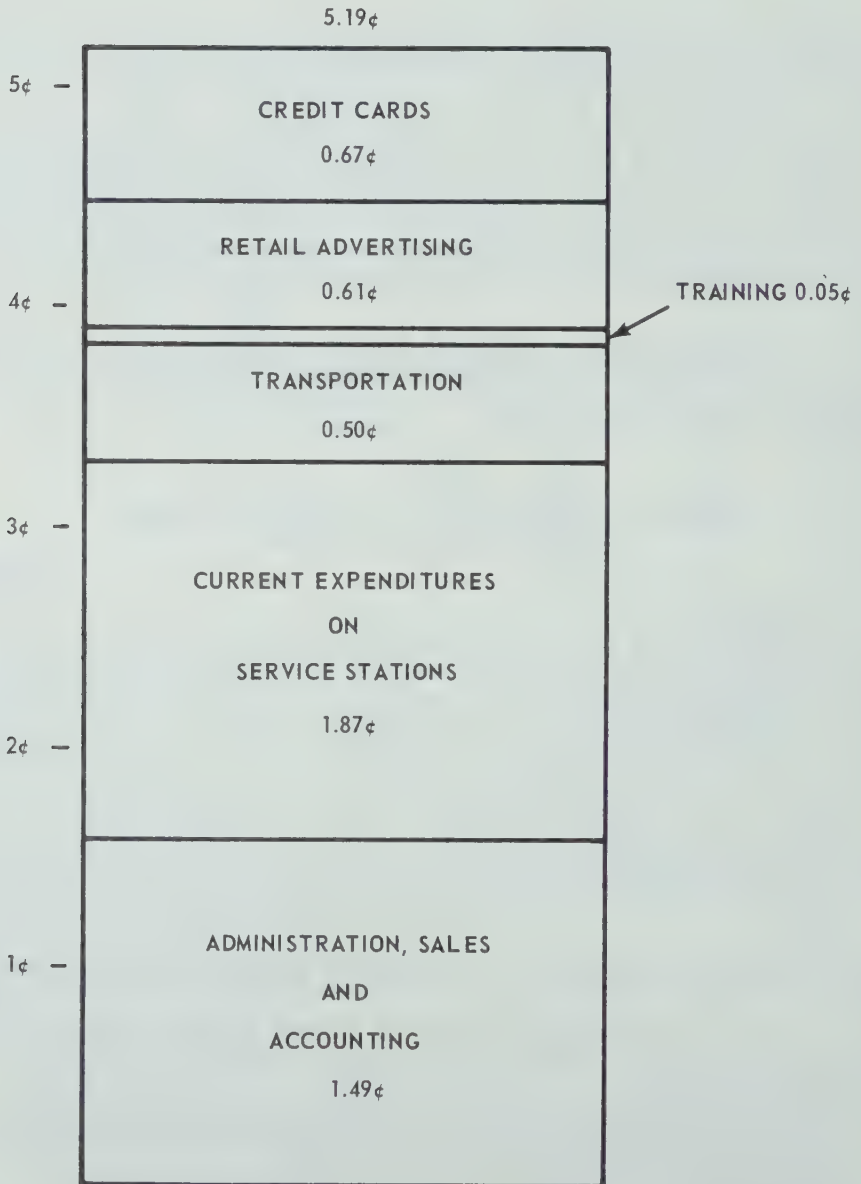
In answer to question 78, the oil companies gave us particulars of gasoline gallonage bought by their marketing divisions from refineries during 1965, and of the average price paid per gallon.



# MARKETING DIVISION

BASIC MARKETING EXPENSE  
AUTOMOTIVE MARKET  
ALBERTA 1965

(ALLOCATING ALL MARKETING DIVISION COSTS  
 FOR ALL PRODUCTS TO GASOLINE ALONE)



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

For integrated companies, the volume of actual purchases at a price, as compared with the volume of transfers from their own refining division, where no price is needed or expressed, would be relatively small. It is likely that a "price", if any, on a transfer would be less than on a purchase. Judging from the small volumes of purchases reported by some companies in answer to question 78 transfers or exchanges were probably not included.

The information provided by subsidiaries of four of the "cartel" companies in answer to question 78 was as follows:

Marketing Division Purchase Price — Cents Per Gallon of Regular Gasoline	
	Purchase Price
	10.40c
	10.60
	11.73
	12.22
Weighted average .....	11.01c

The oil company realization from sales of regular gasoline to service stations for the automotive market during 1965 was

Dealer posted tank truck price .....	19.8c per gal.
Deduct Federal Sales Tax .....	1.9c per gal.
Oil company realization .....	17.9c per gal.

The difference between the oil company realization and the average "purchase" price of the marketing division represents the mark-up of the marketing division for sales to the automotive market

Oil company realization .....	17.9c per gal.
Marketing division "purchase" price .....	11.01c per gal.
Marketing division mark-up .....	6.89c per gal.

It accordingly appears that the cost of the marketing division in marketing gasoline lies somewhere between 2.6 cents per gallon and 5.19 cents per gallon, and the average mark-up of the marketing division is approximately 6.9 cents per gallon.

(10) Marketing Division, Prices

Integrated oil companies use their marketing divisions for the sale of a majority of the petroleum products they produce.

The marketing division uses posted tank truck prices in selling gasoline to its customers in the three basic markets for gasoline in Alberta. At each place in the province there are three such posted prices, one for the automotive market, one for the commercial and industrial market, and one for the farm market. The three posted prices all include the Federal Sales Tax.

(1) **Dealer Posted Tank Truck Price** — this is the price at which each oil company posts its branded products for sale to service stations and other retail outlets.

(2) **Commercial Consumer Posted Tank Truck Price** — this is the price at which the oil company posts its products for sale to commercial/industrial consumers, such as transportation and construction companies and governments.

(3) **Other Consumer Posted Tank Truck Price** — this is the price at which the oil company posts for sale its branded products to farm consumers, etc.

All sales to service station dealers are sold directly by the marketing division so no bulk agent receives a sales commission in respect of such sales.

However, in the case of sales to farm consumers and sales to large numbers of smaller commercial and industrial consumers, the sales are made by a farm dealer or bulk agent who is compensated by a sales commission.

The additional cost to an oil company of distributing its products through a bulk plant differ depending on whether it performs only the handling function or both the handling and sales functions.

Where a bulk plant is performing only the handling function, a major oil company calculates that the additional handling and accounting charges associated with distributing gasoline through the secondary or bulk plant is about 1.5 cents per gallon, which is called the "marketing expense differential".

Where a bulk plant performs both the handling and the sales functions the cost to the oil company increases on the average by a further 1.5 cents to approximately 3 cents per gallon, due largely to increased commission payable to the agent for selling.

The dealer posted tank truck price is a dealer price where the marketing division pays no sales commission. The commercial consumer posted tank truck price and the other consumer posted tank truck price are consumer prices, and in a majority of such cases, sales commissions averaging 1½ cents per gallon are payable to the farm dealer or bulk agent making the sale.

Accordingly, to recover this anticipated commission cost, the commercial consumer posted tank truck price, and the other consumer posted tank truck price are each 1½ cents higher than the dealer posted tank truck price at any location in the province.

So far as posted tank truck prices are concerned, there is also a price differential between posted prices at a refinery supply point such as Edmonton and Calgary, and the posted prices in outlying points. In the refinery supply points of Edmonton and Calgary, during 1965, the posted tank truck prices were as follows:—

Dealer P.T.T.P. ....	19.8 cents
Other Consumer P.T.T.P. (farm) .....	21.3 cents
Commercial/Industrial Consumer P.T.T.P. ....	21.3 cents

For each outlying point or zone in the province there are different posted tank truck prices applicable to that point or zone. At each outlying point the three posted prices for that point exceed the posted prices for the refinery supply point by:—

- (a) the cost of transporting the gasoline from the refinery supply point to that outside point; and
- (b) the "marketing expense differential" of 1.5 cents for handling the gasoline through a bulk plant at that outside point.

Therefore the posted tank truck prices in any outlying point are usually equal to the sum of three items:—

- (a) the posted tank truck price at the refinery supply point; plus
- (b) the transportation cost from the refinery to the outlying point; plus
- (c) the "marketing expense differential" of 1.5 cents.

If competitive conditions exist at the outlying point, the Posted Tank Truck Prices may be slightly less than the sum of the three items. In the following illustration the posted price in Vermilion is equal to the sum of the three items, but the posted price in Camrose is less than the sum of the three items.

#### Dealer Posted Tank Truck Prices at Outlying Points Price Differentials

	Camrose	Vermilion
Dealer Posted Tank Truck Price — Edmonton .....	19.8	19.8
Transportation costs to outlying point .....	0.8	1.3
Marketing Expense Differential .....	1.5	1.5
Total .....	<u>22.1</u>	<u>22.6</u>
Actual Dealer Posted Tank Truck Prices at Outlying Points .....	<u>21.8c</u>	<u>22.6c</u>

If the marketing division makes a direct delivery by tank truck to a service station in an outlying point, its dealer posted price may include "marketing expense differential" even if the cost of handling through a bulk plant is not incurred. It is usually in such cases that the posted price is less than the sum of the three items.

Table 142 shows Dealer Posted Tank Truck Prices for Regular gasoline at representative points during the period 1955-65 (including Federal Sales Tax of 1.9 cents).

Dealer Tank Truck Prices at Refinery Supply Points, excluding Federal Sales Tax, are shown on Chart 84. Marketing Division realization excluding the tax is 17.9 cents per gallon in Edmonton and Calgary.

Table 142

Province of Alberta — Dealer Posted Tank Truck Prices* for Regular Gasoline at Representative Dealer Points as at December 31st — 1955-1965 (Cents Per Gallon)												
		1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Calgary .....	Posted	21.4	21.4	21.1	21.1	20.8	20.8	20.8	20.8	21.2	19.8	19.8
	Net								20.4	20.4	19.4	
Camrose .....		21.5	21.5	21.7	21.7	21.4	21.4	21.4	21.4	21.8	21.8	21.8
Edmonton .....	Posted	20.4	20.4	20.6	20.6	20.3	20.3	20.3	20.3	20.7	19.8	19.8
	Net								19.4	19.8	19.4	
Grande Prairie .....		27.8	27.8	25.9	24.8	23.8	23.8	23.8	22.9	23.3	22.4	22.4
Lethbridge .....	Posted	23.8	23.8	23.5	23.5	22.8	22.8	22.8	22.8	23.2	22.8	22.8
	Net										21.9	
Medicine Hat .....		24.5	24.5	24.2	24.2	23.4	23.4	23.4	23.4	23.8	23.3	23.3
Peace River .....		26.8	26.8	26.6	25.5	24.6	24.6	24.6	23.7	24.1	23.0	23.0
Red Deer .....	Posted	22.4	22.4	22.6	22.1	22.1	22.1	22.1	22.1	22.5	22.5	22.5
	Net										21.9	
Vermilion .....		22.8	22.8	23.0	23.0	22.2	22.2	22.2	22.2	22.6	22.6	22.6

\* These posted tank truck prices include federal sales taxes which were applicable by year as follows:  
1.3 1.3 1.3 1.3 1.5 1.5 1.5 1.5 1.9 1.9 1.9

Source: Imperial Oil Records.

Most dealers are supplied by the marketing division by tank truck which delivers from the marketing division directly to the dealer's storage tank.

Service stations usually take deliveries of large volumes, up to 6,000 gallons per delivery, so delivery costs are at a minimum, no sales commission is payable, and in most cases the cost of handling through a bulk plant is not incurred.

However, in the case of farm consumers and in the case of many commercial and industrial consumers, a large proportion of the total sales volume is represented by a multitude of small customers. These small customers such as farmers, truckers, contractors, domestic heating accounts, buy in bulk but require limited volumes and have limited storage. They require smaller deliveries, such as 200 or 300 gallons, which increases delivery costs. To serve and sell to such customers a bulk plant or redistribution station is required. The marketing division delivers large quantities of products into the bulk plant storage, and the bulk agent makes sales and deliveries to his farm and commercial consumers. The provision of a bulk plant in a community to serve the small commercial/industrial and farm accounts in that community means an additional investment by the oil company and additional operating costs. A sales commission is payable and the "marketing expense differential" of handling through a bulk station is incurred.

(11) Discounts From Marketing Division Prices

The service station dealer purchases gasoline at the "dealer posted tank wagon price" from which no discount is usually given.

Farmers purchase at the "other consumer posted tank wagon price" from which small discounts are frequently given.

Commercial consumers purchase at the "commercial consumer posted tank wagon price" from which relatively large discounts are normally given.

Although the cost of selling and delivering to service stations appears to be less, farm consumers and commercial consumers frequently purchase at discounts below their posted prices, whereas service station operators usually receive no discounts from the posted dealer prices.

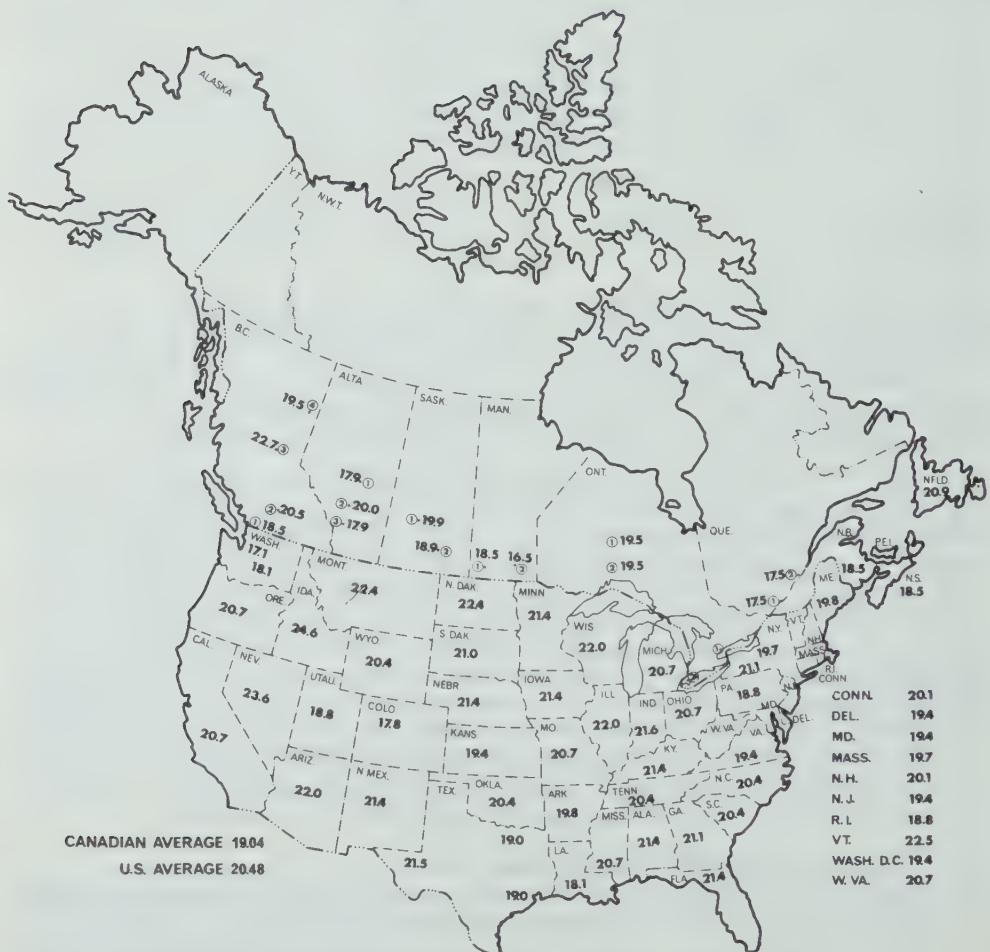


CHART 84

**DEALER TANK-WAGON PRICE EXCLUDING TAX AT REFINERY SUPPLY POINT**

**CANADIAN FUNDS—IMPERIAL GALLONS**

**DECEMBER 1965**



1. 1.9¢ FEDERAL SALES TAX HAS BEEN DEDUCTED FROM THE CANADIAN TANK WAGON PRICE.
2. U.S. FUNDS CONVERTED TO CANADIAN FUNDS (\$1 U.S. = \$1.085 CANADIAN).
3. U.S. GALLON CONVERTED TO AN IMPERIAL GALLON.
4. SOURCE: G.M.E. RECORDS  
PLATT'S OIL PRICE HANDBOOK, 1965 PRICES

Accordingly, in cases where farm discounts or commercial consumer discounts exceed  $1\frac{1}{2}$  cents per gallon, these consumers are paying a smaller price per gallon than the service station operator who is buying for resale.

The service station operator who buys at wholesale for resale considers he is discriminated against when he has to pay a higher price per gallon than farmers and commercial consumers who buy in smaller quantities and for their own use.

For the service station operator to recover his costs and make a profit, he has to charge the motorist a considerably higher price per gallon than prices paid by farm consumers and commercial consumers. The differential is further increased by the provincial fuel oil tax which is payable by motorists.

As a result, different customers pay different prices for regular gasoline as follows:—

- (a) the motorist, approximately 40 cents per gallon,
- (b) the farmer, from 14 cents to 21 cents per gallon,
- (c) the commercial consumer, from 11 cents to 21 cents per gallon.

The above prices show the variations calculated at refinery supply points. At outside points the variations would be the same but prices would be proportionately higher.

There are some large commercial and industrial consumers such as large road contractors, large trucking companies, governments, and other commercial and industrial users whose consumption of petroleum products and storage facilities are comparatively large. Such customers usually deal directly with the marketing division. By dealing directly with the marketing division the cost of a sales commission is not incurred, and if their volume requirements and storage facilities are sufficiently large to permit direct deliveries by tank car or tank truck from the marketing division to the customer, the cost of handling through a bulk plant is also saved. Such savings can be passed on to the commercial or industrial consumer by way of discounts from the posted commercial consumer tank truck price.

However, the service station operator who also deals directly with the marketing division, receives direct tank truck deliveries, and buys equally large annual volumes, considers that he is discriminated against when he does not receive similar discounts.

Table 143 indicates that the automotive market accounted for 56% of all gasoline sales in Alberta during 1965, practically none of which was sold at a discount below the posted price.

Forty-three percent of farm sales, on the other hand, were made at a discount below the posted price, and 73% of commercial/industrial sales were made at a discount below the posted price.

Table 144 indicates that 15% of all sales were made to consumers who paid less than the price paid by service station operators.

Chart 85 shows the volumes sold at various discounts below the posted prices. In the case of sales to the farm market, the discounts ranged up to  $7\frac{1}{2}$  cents below the other consumer posted tank truck prices, which is equivalent to a discount of 6 cents below the dealer posted tank truck price. Most sales to the farm market would incur the marketing expense differential of  $1\frac{1}{2}$  cents per gallon for handling through a bulk station and the sales commission averaging  $1\frac{1}{2}$  cents per gallon, being approximately 3 cents of expense ordinarily not incurred in a sale to a service station operator. The chart shows discounts to commercial/industrial consumers up to  $10\frac{1}{2}$  cents per gallon below the commercial consumer posted tank truck price, which is equivalent to a discount of 9 cents below the dealer posted tank truck price. The volume purchased at the maximum discount was relatively small, and if the purchase was made at a refinery supply point the price was approximately 11 cents per gallon, including Federal Sales Tax of 1.9 cents. Such a discount may have been given in conjunction with a large scale purchase of petroleum products other than gasoline.

Table 143  
Gasoline Sales — Alberta, 1965

	Gallons	%
Automotive .....	256,680,000	56
Farm .....	147,091,000	32
Commercial .....	54,713,000	12
	<u>458,484,000</u>	<u>100%</u>

**Automotive Sales**

	Gallons	%
At posted price .....	256,680,000	100
At discounted price .....	—	0
	<u>256,680,000</u>	<u>100%</u>

**Farm Sales\***

	Gallons	%
At posted price or higher .....	80,371,000	57
At discounted price .....	61,461,000	43
	<u>141,832,000</u>	<u>100%</u>

**Commercial Industrial Sale†**

	Gallons	%
At posted price or higher .....	14,518,000	27
At discounted price .....	39,551,000	73
	<u>54,069,000</u>	<u>100%</u>

\* Some Off Brand sales and Husky not included.

† Shell did not report all sales.

Source: Questionnaire 9, Question 36.

Questionnaire 17, Question 104, 105.

Table 144  
Gasoline Sales — Alberta, 1965

Type of Market	At or above Posted Commercial or Posted Other Consumer Tank Truck Price	At or above Posted Dealer Tank Truck Price	Discounted Below Posted Dealer Tank Truck Price	Totals
Automotive .....		256,680,000	==	256,680,000
Farm .....	80,371,000	33,517,000	27,944,000 ==	141,832,000
Commercial .....				
Industrial .....	14,518,000	1,619,000	37,932,000 ==	54,069,000
Totals .....	<u>94,889,000</u>	<u>291,816,000</u>	<u>65,876,000</u> ==	<u>452,581,000</u>
% .....	<u>21%</u>	<u>64%</u>	<u>15%</u> ==	<u>100%</u>

15% of sales to consumers are made for less than the price paid by service station operators, i.e. less than the Posted Dealer Tank Truck Price.

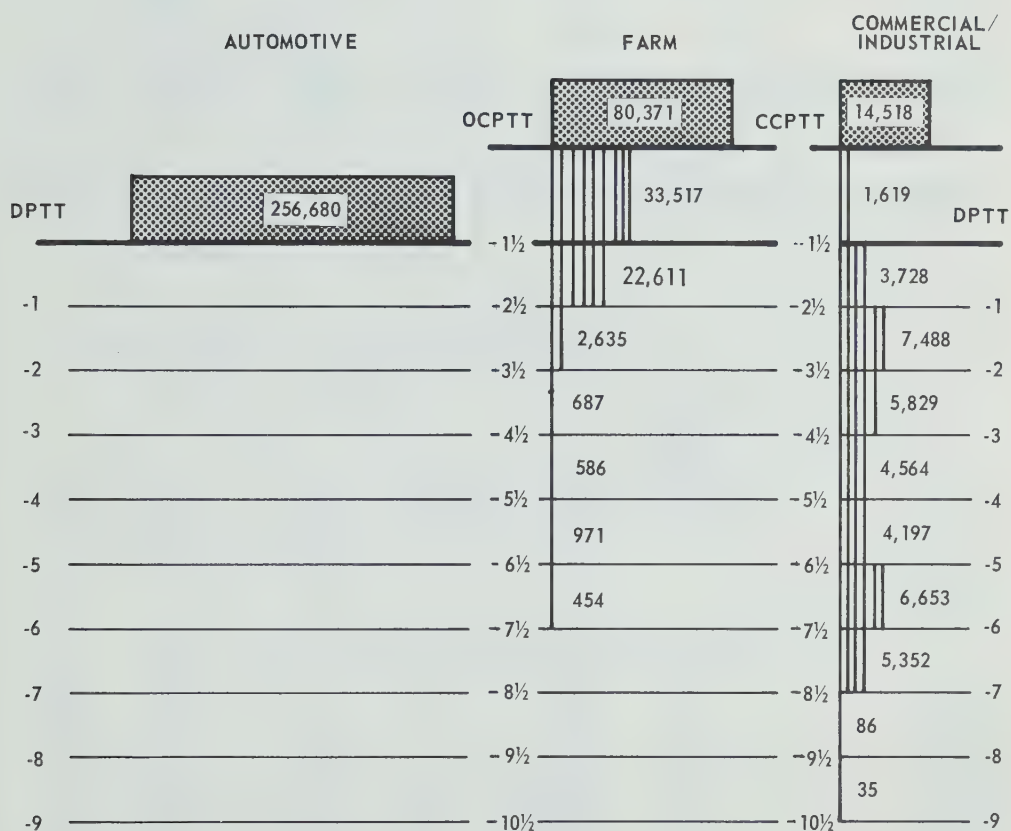
Source: Questionnaire 9, Question 36.

Questionnaire 17, Questions 104, 105.

CHART 85

## VOLUMES SOLD AT POSTED PRICES AND AT DISCOUNTED PRICES

ALBERTA - 1965  
(THOUSANDS OF GALLONS)



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



Table 145  
Discounts Granted From Other Consumer Tank Truck Prices — Alberta, 1965  
(Thousands of Gallons)

Discount c. Per Gal.	Discount Below Posted Dealer Tank Truck Price	"Cartel" Brands	"Other" Brands	Off Brands	Total	%
Commercial Tank Truck ..... or Higher		57,971	0	22,400	80,371	56.7
0 - 1.5		17,735	3,705	12,077	33,517	23.6
	(Equivalent to Posted Dealer Tank Truck Price)					
1.5 - 2.5	1c	21,879	0	732	22,611	15.9
2.5 - 3.5	2c	2,381	0	254	2,635	1.9
3.5 - 4.5	3c	687	0	0	687	0.5
4.5 - 5.5	4c	253	0	333	586	0.4
5.5 - 6.5	5c	971	0	0	971	0.7
6.5 - 7.5	6c	0	0	454	454	0.3
Total .....		101,877	3,705	36,250	141,832	100%
% .....		71.8%	2.6%	25.6%		

19.7% of sales to farm consumers are made for less than the price paid by service station operators, i.e. less than Dealer Posted Tank Truck price.

Source: Questionnaire 17, Question 105.

Table 146  
Discounts Granted From Commercial Consumer Posted Tank Truck Prices — Alberta, 1965  
(Thousands of Gallons)

Discount c. Per Gal.	Discount Below Posted Dealer Tank Truck Price	"Cartel" Brands	"Other" Brands	Off Brands	Total	%
Commercial Tank Truck ..... or Higher		12,543	328	1,647	14,518	26.9
0 - 1.5		1,177	42	400	1,619	3.0
	(Equivalent to Posted Dealer Tank Truck Price)					
1.5 - 2.5	1c	3,695	33	0	3,728	6.9
2.5 - 3.5	2c	7,434	54	0	7,488	13.8
3.5 - 4.5	3c	5,727	102	0	5,829	10.8
4.5 - 5.5	4c	4,487	77	0	4,564	8.4
5.5 - 6.5	5c	3,548	649	0	4,197	7.8
6.5 - 7.5	6c	6,507	146	0	6,653	12.3
7.5 - 8.5	7c	5,257	95	0	5,352	9.9
8.5 - 9.5	8c	60	26	0	86	0.15
9.5 - 10.5	9c	0	35	0	35	0.05
Total .....		50,435	1,587	2,047	54,069	100%
% .....		93.3%	2.9%	3.8%		

70.1% of sales to commercial industrial consumers are made for less than the price paid by service station operators, i.e. less than Dealer Posted Tank Truck price.

Source: Questionnaire 17, Question 104.

In theory, apart from discounts, the three posted prices of the marketing division should produce the same net price per gallon irrespective of whether the sale is to the automotive, farm, or commercial market, and irrespective of the place of sale. This net price to the marketing division is equal to the amount of the posted dealer tank wagon price at the refinery supply point.

This result is achieved by increasing posted prices for supplying any market by amounts equal to increases in marketing costs incurred to supply that market, which are in excess of those for supplying dealers in the vicinity of the refinery supply point.

(1) The additional cost of the average sales commission of 1.5 cents, paid to bulk agents and farm dealers, for sales to farmers and to commercial and industrial consumers is recovered from the 1.5 cents differential between the dealer posted price and the two other posted prices which are 1.5 cents higher for commercial consumers and for other consumers.

(2) The additional cost of deliveries from refinery supply points to outside points is recovered from the higher posted prices in outside points.

(3) The additional cost of handling through a bulk station in an outside point is recovered by the addition of the "marketing expense differential" which forms part of the higher posted price applicable to that outside point.

As the three additional costs of

- (a) sales commissions; and
- (b) transportation charges; and
- (c) handling charges,

are all recovered by additions to the basic price of the marketing division at the refinery supply point, (which corresponds to the dealer posted tank truck price at that point), the net realization of the marketing division for sales to any market at any place should be the same, apart from discounts.

However, due to discounts, the price realized by the marketing department from sales to each of the three markets differs.

The marketing department realizes —

- (a) 19.8 cents per gallon from service station dealers which is the dealer posted price because there are no discounts;
- (b) 18.87 cents per gallon on the average from the farm market because of a small degree of discounting; and
- (c) 15.86 cents per gallon on the average from the commercial and industrial consumer market because of a substantial degree of discounting.

The posted dealer prices include Federal Sales Tax of 1.9 cents per gallon.

Excluding Sales Tax the marketing department realizes —

- (a) 17.9 cents per gallon of automotive sales,
- (b) 16.97 cents per gallon of farm sales,
- (c) 13.96 cents per gallon of commercial sales.

Table 147

Average Other Consumer Posted Tank Truck Price — Alberta, 1965

OCPTT 21.3c			
Price		Gallons Sold	
21.3	x	80,371,000	= \$17,119,023
19.8	x	33,517,000	= 6,636,366
18.8	x	22,611,000	= 4,250,868
17.8	x	2,635,000	= 469,030
16.8	x	687,000	= 115,416
15.8	x	586,000	= 92,588
14.8	x	971,000	= 143,708
13.8	x	454,000	= 62,652
Total .....		141,832,000	\$28,889,651
		Average Price	$\frac{28,889,651}{141,832,000} = 20.37c$
Deduct increase in posted price .....		1.5	
(to cover average commission cost)			
Net to marketing division .....		18.87	(including sales tax)
		16.97	(excluding sales tax)

Source: Questionnaire 17, Question 105.

Table 148

Average Commercial Consumer Posted Tank Truck Price — Alberta, 1965

CCPTT 21.3c

Price		Gallons Sold		
21.3	x	14,518,000	=	\$3,092,334
19.8	x	1,619,000	=	320,562
18.8	x	3,728,000	=	700,864
17.8	x	7,488,000	=	1,332,864
16.8	x	5,829,000	=	979,272
15.8	x	4,564,000	=	721,112
14.8	x	4,197,000	=	621,156
13.8	x	6,653,000	=	918,114
12.8	x	5,352,000	=	685,056
11.8	x	86,000	=	10,148
10.8	x	35,000	=	3,780
Total	.....	<u>54,069,000</u>		<u>\$9,385,262</u>
		Average Price $\frac{54,069,000}{9,385,262} = 17.36c$		
Deduct increase in posted price		<u>1.5</u>		
(to cover average commission cost)				
Net to marketing division .....		<u>15.86</u> (including sales tax)		
		<u>13.96</u> (excluding sales tax)		

Source: Questionnaire 17, Question 104.

## CHAPTER 32. RETAIL PRICE OF GASOLINE

### (1) Components of Retail Price

The retail price of gasoline is the price on the service station pump payable by the motorist. In December of 1965 this price was 39.9 cents per gallon in Edmonton and Calgary.

We have already seen that the marketing division charged the service station operator the dealer posted tank truck price of 19.8 cents per gallon being —

- (a) the net realization to the oil company of 17.9 cents; and
- (b) Federal Sales Tax of 1.9 cents.

The difference between the posted dealer tank truck price of 19.8 cents and the retail price of 39.9 cents is also made up of two items, namely —

- (a) the fuel oil tax or road tax payable to the province by the motorist in the sum of 12 cents; and
- (b) the service station operator's mark up of 8.1 cent.

The retail price of gasoline is accordingly made up of three component portions, namely —

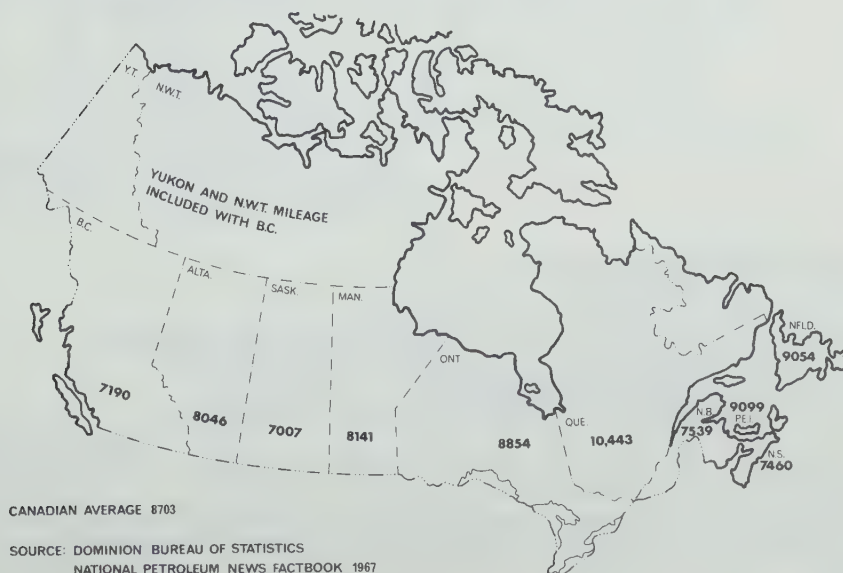
- (a) the oil company's portion,
- (b) the tax portion, and
- (c) the retailer's portion.

### (2) The Tax Portion of the Retail Price

Apart from the 17.9 cents realized by the oil company, taxes of 13.9 cents per gallon are the second largest component in the items making up the price of a gallon of gasoline.

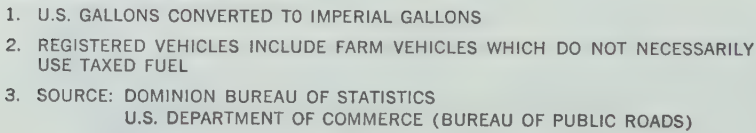
What these taxes amount to so far as the motorist is concerned is illustrated by Table 149, and Charts 88, and 89. Chart 86 shows the average mileage per year per registered vehicle, which is 8,046 miles for Alberta. Chart 87 shows the taxed motive fuel consumption per registered vehicle, which for Alberta is 586 gallons. Table 149 shows the amounts in cents per gallon of Federal Sales Tax, and of Provincial Road Tax applicable to regular gasoline over the period from 1955 to 1965. Chart 88 shows the sum of Federal and Provincial taxes on gasoline in various provinces and states, which in Alberta in 1965 was 1.9 cents per gallon Federal and 12 cents Provincial for a total of 13.9 cents per gallon. Chart 89 shows what these taxes amount to in dollars per registered vehicle, which in the case of Alberta was \$82.20 per vehicle in 1965.

CHART 86  
AVERAGE MILEAGE PER YEAR PER REGISTERED VEHICLE BY PROVINCE: 1965





**TAXED MOTIVE FUEL CONSUMPTION PER REGISTERED VEHICLE**  
(IMPERIAL GALLONS)  
1965

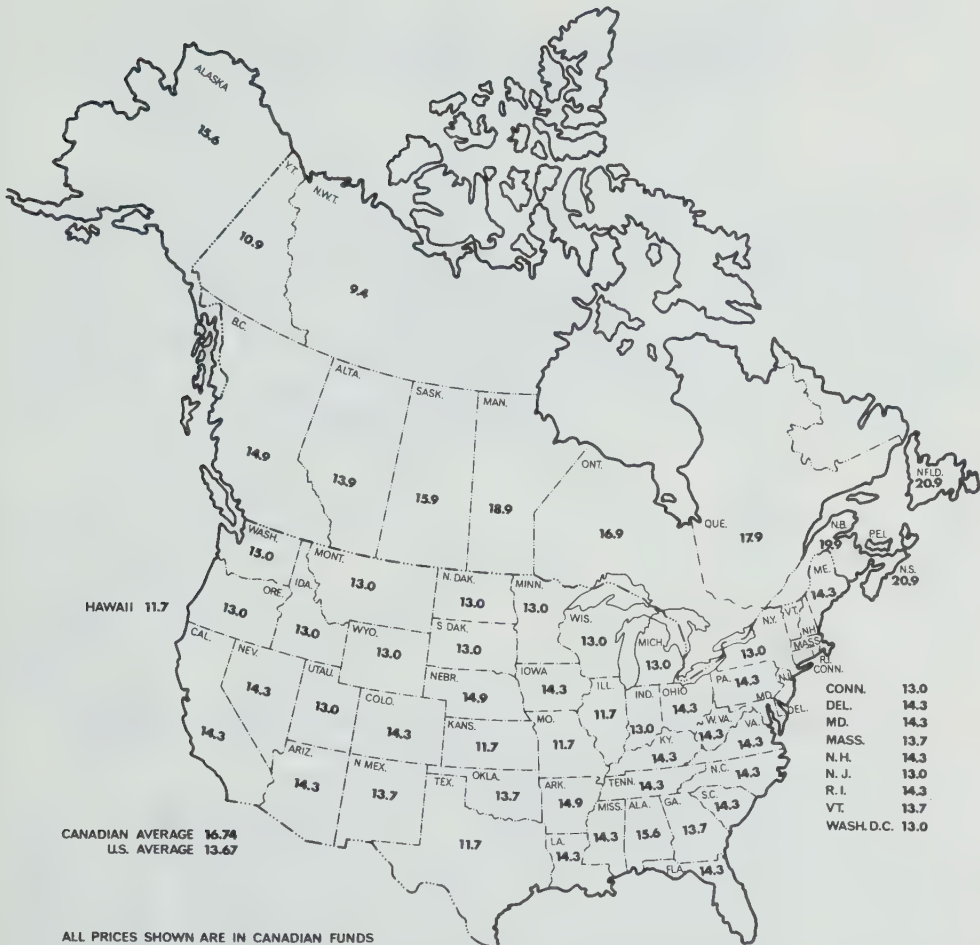


# CHART 88

## TAX ON MOTOR GASOLINE (FEDERAL AND PROVINCIAL OR STATE)

(CENTS PER GALLON)

DECEMBER 1965



ALL PRICES SHOWN ARE IN CANADIAN FUNDS

1. U.S. FUNDS CONVERTED TO CANADIAN FUNDS (\$1 U.S. = \$1.085 CANADIAN)
2. TAXES SHOWN ARE APPLICABLE TO AN IMPERIAL GALLON OF GASOLINE (U.S. GALLON CONVERTED TO AN IMPERIAL GALLON)
3. SOURCE: PLATT'S OIL PRICE HANDBOOK, 1965 PRICES  
NATIONAL PETROLEUM NEWS FACTBOOK 1966

Table 149

### Province of Alberta — Federal Sales and Provincial Road Taxes Regular Gasoline — 1955-1965 (Cents Per Gallon)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Federal Sales Tax	1.3	1.3	1.3	1.3	1.5	1.5	1.5	1.5	1.9	1.9	1.9
Alberta Road Tax	10.0	10.0	10.0	10.0	10.0	10.0	12.0	12.0	12.0	12.0	12.0
Total	11.3	11.3	11.3	11.3	11.5	11.5	13.5	13.5	13.9	13.9	13.9

Note: To 1959 Federal Sales Tax was 6% of Edmonton dealer tank truck, and from 1959 to 1963 was 7% of Edmonton dealer tank truck. From 1963 to present, Federal Sales Tax is 1.9c on a Canada-wide basis.

Source: Imperial Oil Records.



(3) The Dealer's Portion of the Retail Price

The third largest component of the price of a gallon of gasoline is the mark up of the retail dealer. This mark up varies not only from community to community and from year to year, but also as between retail outlets operating in the same community. The following table shows various classifications of retail outlets and indicates who fixes the mark up in each classification of outlet.

Classification of Outlets	Retail Price and Mark up Determined By:
Leased outlet	Lessee Operator
Owned outlet	Owner Operator
Employee operated	Oil Company
Commission Agent	Oil Company
Bulk Stations and Farm Dealers	Oil Company

Table 150 shows variations in the dealer margins between various communities in the province and from year to year. Chart 90 shows the service station mark up on a gallon of regular grade gasoline at various locations throughout Canada and the United States. Table 151 shows the resulting variation in retail prices at various communities in Alberta, and the variations in price within these communities from year to year. Chart 91 shows the retail price of regular grade gasoline at various points in Canada and the United States. Chart 92 shows the four major components making up the price of a gallon of gasoline to the motorist which in December 1965 totalled 39.9c made up as follows:

Particulars:	Price:
Net price to oil company .....	17.9c
Federal Sales Tax .....	1.9c
Provincial Tax .....	12.0c
Dealer Mark Up .....	8.1c
Price of one gallon of gasoline .....	<u>39.9c</u>

Table 150

Province of Alberta — Representative Dealer Margins as at December 31st, Regular Gasoline — 1955-1965 (Cents Per Gallon)

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Calgary .....	8.1	8.1	8.2	8.9	9.2	8.1	8.1	6.5*	6.5*	6.5*	8.1
Camrose .....	7.5	7.5	8.3	8.3	8.6	8.6	8.6	8.6	8.6	8.7	8.7
Edmonton .....	7.6	7.6	7.9	8.4	8.7	7.6	7.6	6.5*	6.5*	6.5*	8.1
Grande Prairie .....	7.7	7.7	8.6	8.7	9.0	8.5	8.5	8.5	8.5	8.5	8.5
Lethbridge .....	7.7	7.7	9.0	9.0	9.1	8.1	8.1	8.1	7.7	8.1	7.0
Medicine Hat .....	7.0	7.0	7.3	7.3	8.7	8.5	8.5	8.5	8.6	8.6	8.6
Peace River .....	7.1	7.1	8.0	7.9	8.2	8.3	7.3	7.2	7.8	8.9	8.9
Red Deer .....	7.6	7.6	8.4	8.4	8.9	8.9	8.8	8.9	7.4	7.4	7.0
Vermilion .....	7.2	7.7	8.0	8.0	8.8	8.8	8.8	8.8	8.9	8.9	8.8

\* Commission Consignment.  
Source: Imperial Oil Records.

Table 151

Province of Alberta — Representative Retail Prices — Regular Gasoline — 1955-1965 (Cents Per Gallon)

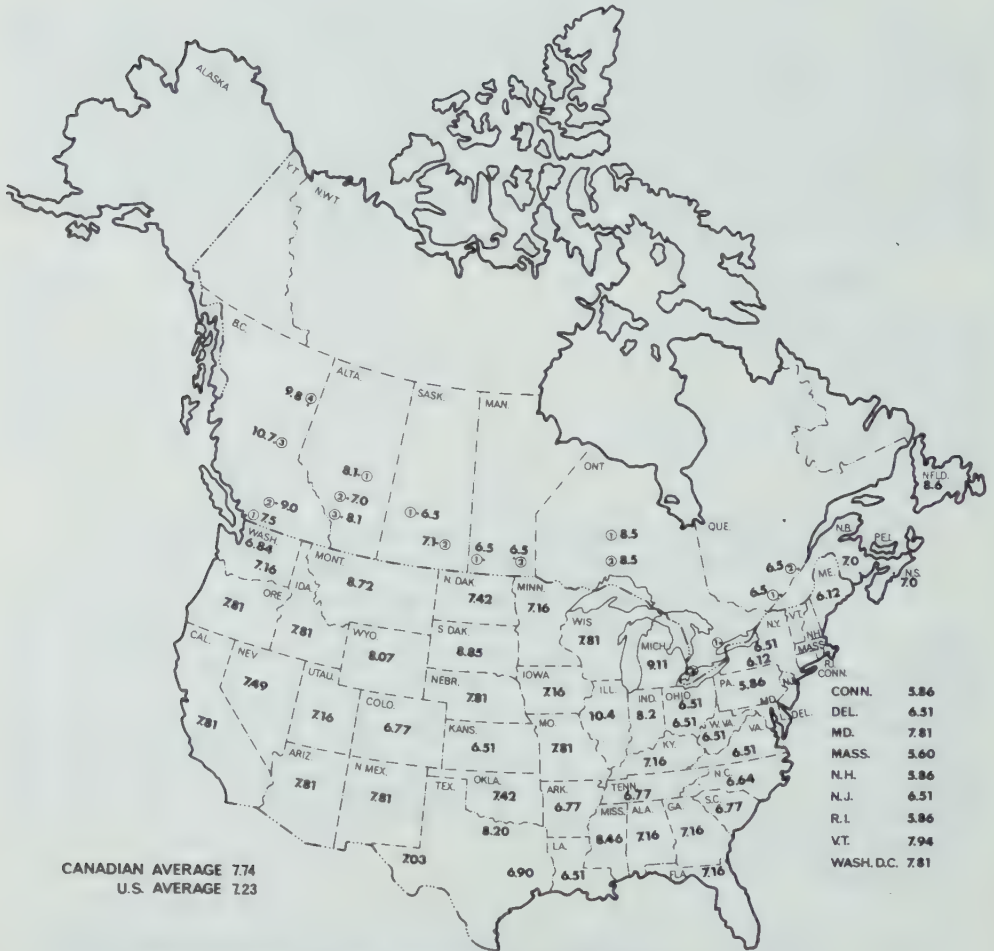
	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
Calgary .....	39.5	39.5	39.3	40.0	40.0	38.9	40.9	38.9	38.9	37.9	39.9
Camrose .....	39.0	39.0	40.0	40.0	40.0	40.0	42.0	42.0	42.4	42.5	42.5
Edmonton .....	38.0	38.0	38.5	39.0	39.0	37.9	39.9	37.9	38.3	37.9	39.9
Grande Prairie .....	45.5	45.5	44.5	43.5	42.8	42.3	44.3	43.4	43.8	42.9	42.9
Lethbridge .....	41.5	41.5	42.5	42.5	41.9	40.9	42.9	42.9	42.9	42.9	40.9
Medicine Hat .....	41.5	41.5	41.5	41.5	42.1	41.9	43.9	43.9	44.4	43.9	43.9
Peace River .....	43.9	43.9	44.6	43.4	42.8	42.9	43.9	42.9	43.9	43.9	43.9
Red Deer .....	40.0	40.0	41.0	40.5	41.0	41.0	42.9	43.0	41.9	41.9	40.9
Vermilion .....	40.0	40.5	41.0	41.0	41.0	41.0	43.0	43.0	43.5	43.5	43.4

Source: Imperial Oil Records.



# CHART 90

## SERVICE STATION MARKUP ON A GALLON OF REGULAR GRADE GASOLINE CANADIAN FUNDS—IMPERIAL GALLONS DECEMBER 1965



1. U.S. FUNDS CONVERTED TO CANADIAN FUNDS (\$1 U.S. = \$1.085 CANADIAN)
2. U.S. GALLON CONVERTED TO AN IMPERIAL GALLON
3. SOURCE: G.M.E. RECORDS  
PLATT'S OIL PRICE HANDBOOK, 1965 PRICES

**RETAIL PRICE OF REGULAR GRADE GASOLINE CENTS PER GALLON**  
CANADIAN FUNDS - IMPERIAL GALLONS  
DECEMBER 1965

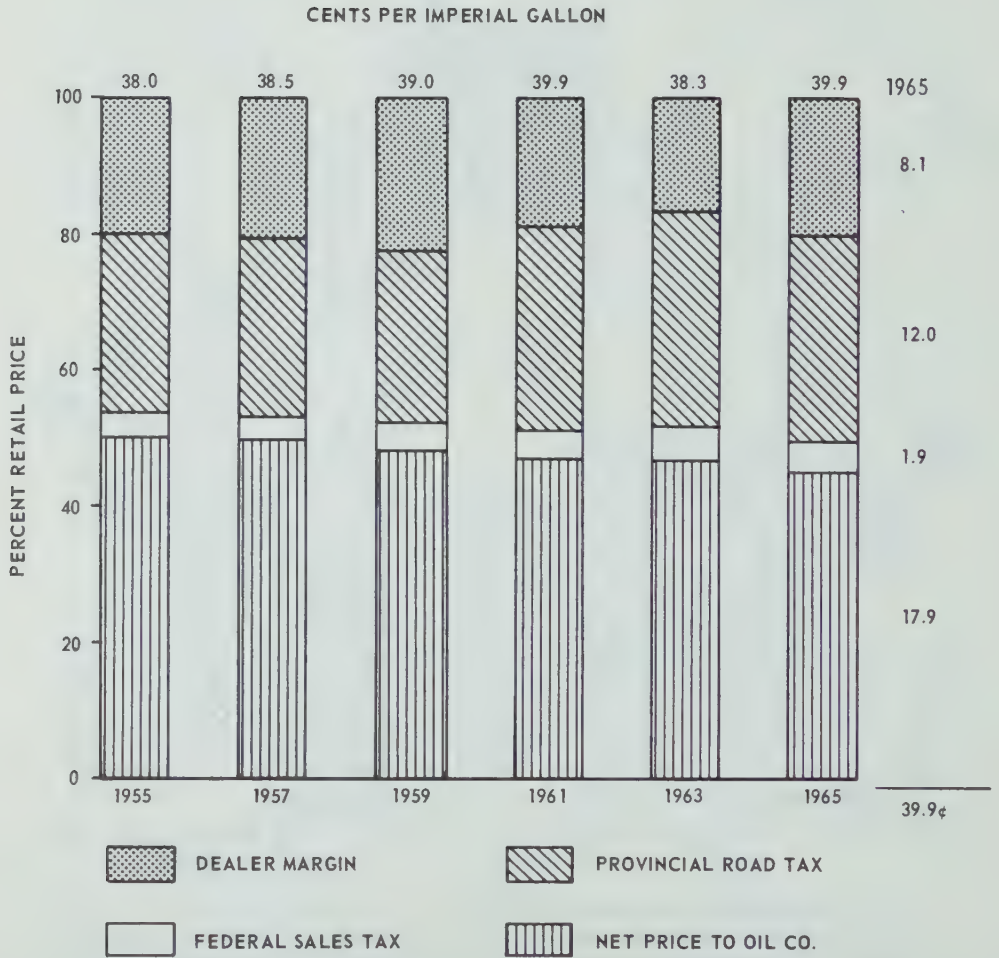


1. U.S. GALLON CONVERTED TO AN IMPERIAL GALLON.
2. U.S. FUNDS CONVERTED TO CANADIAN FUNDS (\$1 U.S. = \$1.085 CANADIAN)
3. FEDERAL AND PROVINCIAL OR STATE TAXES INCLUDED.
4. SOURCE: G.M.E. RECORDS  
PLATT'S OIL PRICE HANDBOOK 1965 PRICES

CHART 92

# PRICE, TAXES AND MARGIN TRENDS

ESSO GASOLINE EDMONTON  
1955 - 1965



SOURCE - IMPERIAL OIL RECORDS

## CHAPTER 33. OIL INDUSTRY PRICE STRUCTURE

### (1) The Cost of Regular Gasoline

The price structure of regular gasoline to the automotive market, is illustrated by the bar chart shown as Chart 93. The comparison between 1965 and 1968 is shown in Charts 153 and 154.

The elements which make up the total cost to the oil company are classified as follows:

- (a) exploration and production costs,
- (b) refining costs,
- (c) marketing costs.

The highly publicized risks and vast costs of exploration and production at 3c per gallon are less than half as much per gallon as the mark-up of the marketing division of approximately 7c per gallon.

Refining costs expressed in cents per gallon vary with size of refinery, how close it is operating to capacity, the types of crude used, the processes and equipment employed, and the product yield desired. In Alberta the cost of refining appears to range from less than 2c per gallon to approximately 3c per gallon.

Marketing costs expressed in cents per gallon may vary from approximately 2.6c to approximately 5.2c, depending on what portion of the total cost of marketing all products is allocated to the marketing of gasoline. The maximum cost of 5.2c per gallon is obtained by charging the total cost of marketing of all products to gasoline alone. If any part of marketing costs is charged to other products marketed, the marketing cost per gallon would drop below this figure.

An item that should be a retailing cost, namely, part of the cost of providing excessive numbers of unnecessary service stations, accounts for 1.87 cents per gallon of marketing cost. This retailing cost is recovered in the wholesale price of gasoline as part of the marketing division mark-up of approximately 7c. This discriminates against owners who provide their own service stations by requiring them to help pay for oil company stations with which they compete.

Table 152

#### Oil Company Approximate Costs (c per gallon)

Exploration and Production .....	3c
Refining .....	3c
Total cost of producing a gallon of gasoline .....	<u>6c</u>

The marketing division markets gasoline and other products. Total Marketing cost expressed in cents per gallon —

- (a) if prorated to all gallons of all products, is approximately ..... 3c
- (b) if charged to gasoline alone, is approximately ..... 5c
- (c) if expenditures on service stations are excluded, is approximately .... 3c

	Marketing Cost Prorated to all Products	Marketing Cost Allocated entirely to Gasoline
Exploration & Production .....	3c	3c
Refining .....	3c	3c
Marketing .....	3c	5c
	<u>          </u>	<u>          </u>
Total cost of producing and marketing a gallon of gasoline .....	9c	11c

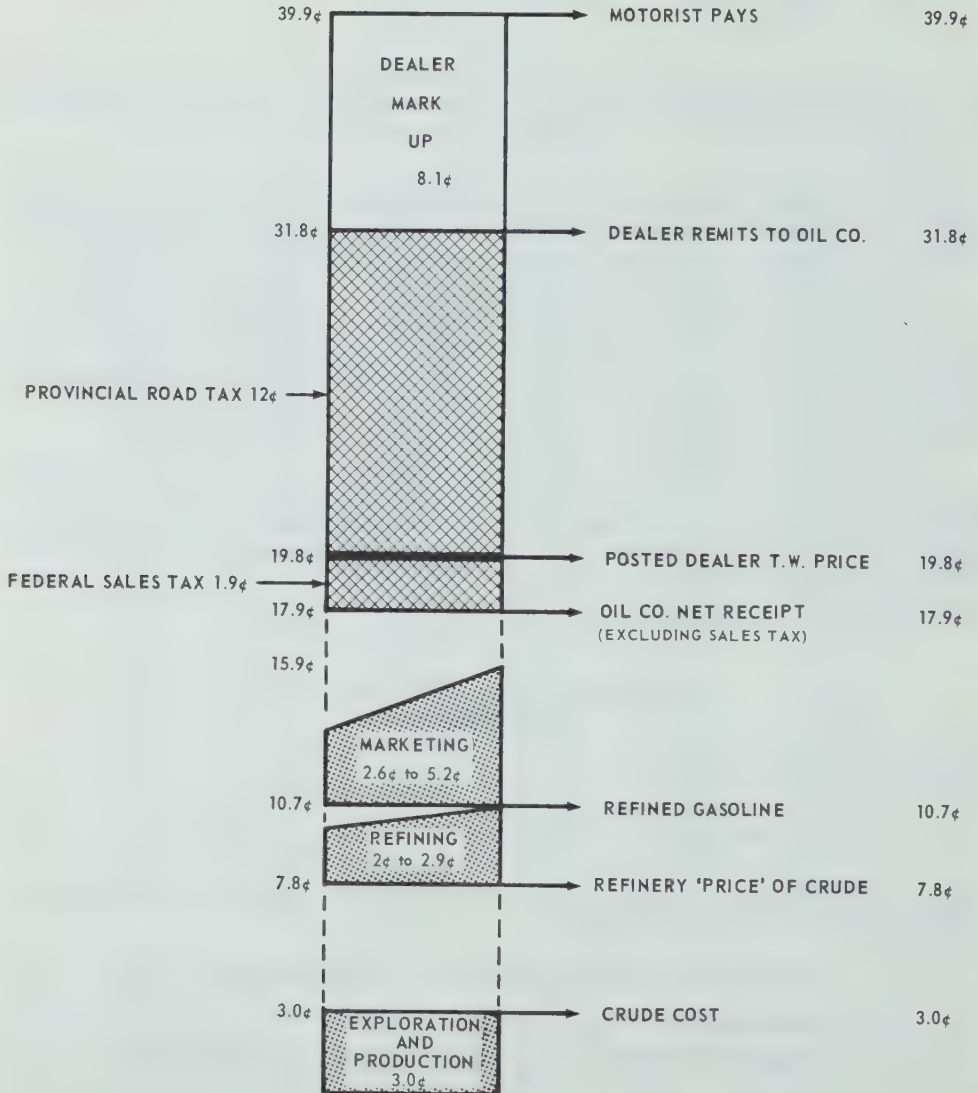


CHART 93

# COST STRUCTURE OF REGULAR GASOLINE

TO THE AUTOMOTIVE MARKET - ALBERTA 1965

PER GALLON



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

An integrated oil company would appear to make a profit on regular gasoline:

	c per gallon
(a) if its refining division sells it for more than .....	6c
(b) if its marketing division sells it for more than (prorating marketing costs to all products) .....	9c
(c) if its marketing division sells it for more than (allocating expenditures on service stations to retailing) .....	9c
(d) if its marketing division sells it for more than (charging total cost of marketing all products to gasoline alone and including expenditures on service stations.) .....	11c

Source: Gasoline Marketing Enquiry Records.

## (2) The Price of Regular Gasoline

Table 153

### Approximate Average Prices (cents per gal.) for Regular Gasoline — Alberta 1965

#### Refining Division Prices (including Federal Sales Tax)

To other Integrated Oil Companies, with refineries .....	13.2
To Jobbers and Wholesalers, without refineries .....	14.5

#### Marketing Division Prices

To commercial and industrial consumers .....	15.86
To farm consumers .....	18.87
To service station operators .....	19.8

#### Service Station Price (including Provincial Fuel Oil Tax)

To motorists .....	39.9
--------------------	------

Source: Gasoline Marketing Enquiry Records.

Table 154

### Prices Paid by Consumers for Regular Gasoline — Alberta 1965

	Low	High	Average
Commercial & Industrial .....	10.8	21.3	15.86
Farm (Exempt from fuel oil tax) .....	13.8	21.3	18.87
Farm (Subject to Fuel Oil Tax) .....	25.8	33.3	30.87
Motorists .....	—	—	39.9

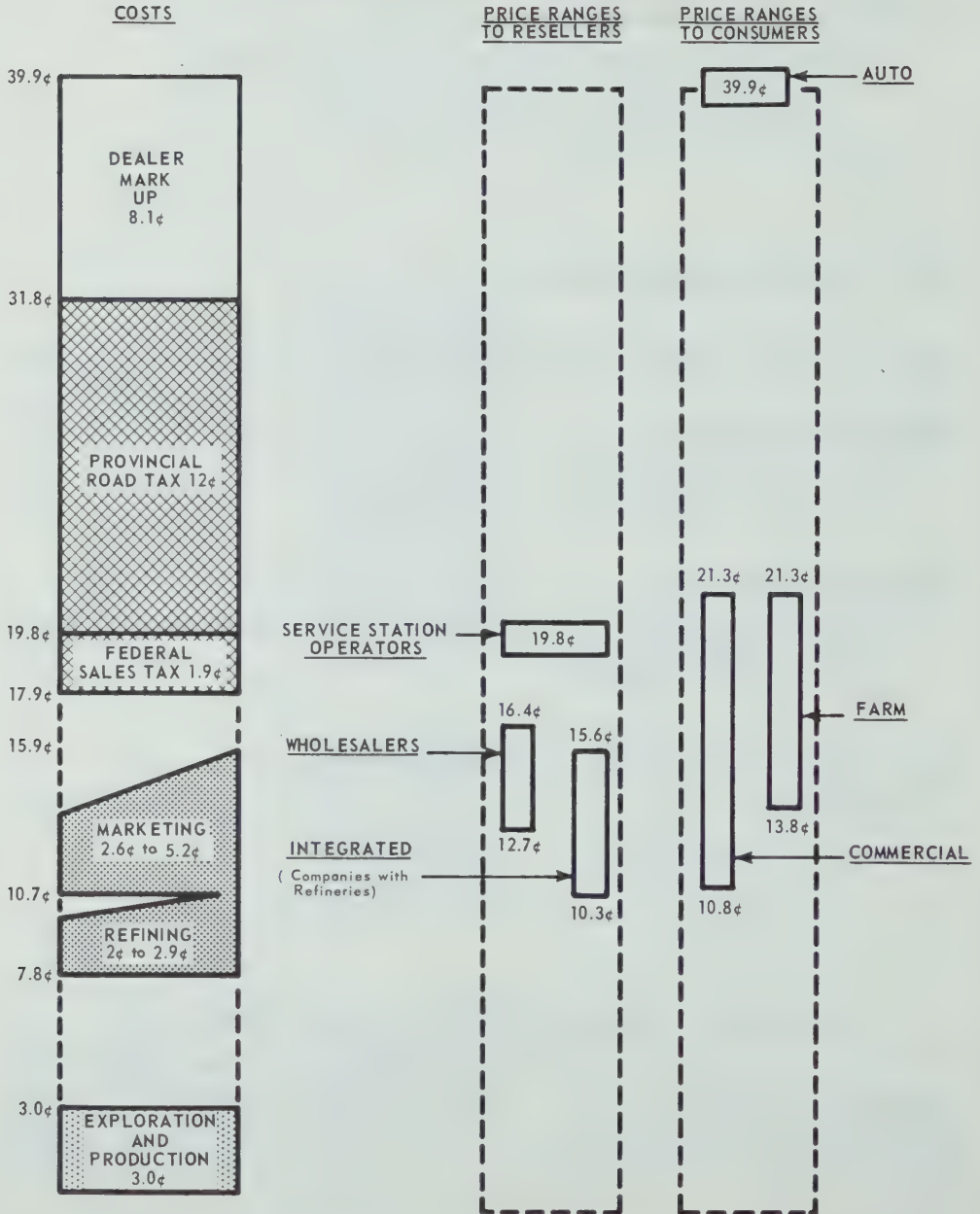
(These are prices paid at refinery supply points such as Edmonton and Calgary. Prices are higher at outside points, although the range from low to high would be similar.)

Source: Gasoline Marketing Enquiry Records.

CHART 94

# PRICE OF REGULAR GASOLINE

CENTS PER GALLON ALBERTA 1965  
(INCLUDING FEDERAL SALES TAX)



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

## **Price Leadership**

The marketing of gasoline in Alberta is dominated by the subsidiaries of four gigantic international oil companies. These companies avoid price competition and price wars which they do not consider to be in their best interests. Because of the system of "tied" outlets each company has a chain of outlets to which it has the exclusive right to sell, and no company can attract service stations from another by inducements in price. Accordingly, a reduction in posted prices can't increase volume by attracting more service stations to purchase, it would simply decrease profits.

In all of our checking we have never found a single instance of a subsidiary of one of the "cartel" companies commencing a price war by reducing its posted prices.

At the same time, the oil companies are extremely conscious of the Canadian Combines Laws; and their marketing personnel take painstaking care not to agree on prices or to engage in discussions with competitors relating to price, or to do anything which will have the appearance of lessening competition.

Nevertheless, in our opinion there is no price competition between the major integrated oil companies in sales to service stations, and historically, their posted prices have almost always been identical. There is vigorous competition for gasoline volume using every available means except price.

Imperial Oil Limited is the largest of the "cartel" subsidiaries operating in Canada and it has the greatest ability to compete if price competition develops. Imperial is the acknowledged price leader in the industry. As price leader, we consider Imperial has acted responsibly, taking into account public as well as private considerations, in an appropriate manner for a good corporate citizen.

If Imperial makes any change in its posted prices, the other integrated companies are quick to follow.

Upon rare occasions another company may have taken the lead in posting a price change. If Imperial followed this lead, the price change would be generally adopted, but if Imperial failed to follow the lead the change in posted prices would normally be abandoned.

As a general rule, at all times, the subsidiaries of the four "cartel" companies marketing in Alberta have identical posted prices.

## **Price to Service Stations**

The subsidiaries of the "cartel" companies sell their brand name gasoline to their brand name service stations at the prevailing posted prices, irrespective of whether such service stations are operated by their owners or by company lessees. Accordingly, all service station operators, other than off-brand outlets, buy their gasoline at a uniform price, irrespective of the volume of their purchases. The service station operator is "tied" and the oil company obtains all of his gasoline volume, whatever it might be, without the necessity of offering him any discount in price.

## **Price to Commercial and Industrial Consumers**

Unlike the service station operator who is "tied", the commercial or industrial consumer is free to purchase from any oil company he chooses, and his choice is certainly influenced by price. Accordingly, there appears to be keen price competition between oil companies, which sell at discounts below their commercial consumer posted tank truck prices, in order to acquire the volume available from commercial and industrial consumers. The volume of a purchase, and the economies of direct tank truck delivery, are no doubt considered in granting a discount to a commercial consumer.

However, many service stations which receive no discount buy larger annual volumes than commercial consumers who enjoy a large discount. The economies of direct tank truck delivery are just as available in the case of a service station as in the case of a commercial consumer.

The only apparent difference is that the service station is "tied" and has to buy from the oil company whether or not a discount is offered, whereas the commercial consumer is free to buy from the company that offers the cheapest price.



### (3) Discounts to Commercial Consumers

In respect of discounts to commercial consumers we have studied hundreds of individual transactions.

We can discover no apparent relationship between volume bought and price paid, either in the industry as a whole or in any individual company.

A low volume sale and a high volume sale may each be at the same price and discount. For instance, one oil company sold 3,200 gallons to a manufacturing company, and 196,000 gallons to a construction company, both at a discount of 5½c per gallon.

One sale at a low volume may receive a small discount and another sale of the same volume in the same month may receive a large discount. For instance, one oil company sold 800 gallons to a contractor at a discount of only 1c per gallon, but in the same week sold 800 gallons to a delivery fleet at a discount of 8.49c per gallon.

One sale of a large volume may receive a large discount and another sale of the same volume in the same month may be at a small discount. For instance, one oil company sold 7,000 gallons to a transport company at a discount of 5.1c per gallon, while a construction company which bought 7,000 gallons at the same time only got a discount of 7/10 of a cent per gallon.

We could find no relationship between times or seasons and discounts. In other words, all the high discounts did not appear to relate to any time or season. At any given time, for comparable sales volumes, there appeared to be both high discounts and low discounts.

The Committee discussed gasoline pricing with a man who had extensive experience in the oil business, both in the marketing division of a major integrated oil company and as an off-brandier. He expressed the view that there was "no rhyme or reason to the discounts offered from commercial consumer tank truck price". He gave examples from his experience when he had a voice in determining such discounts.

In one case, a major integrated oil company was supplying diesel fuel to a drilling contractor in Alberta at a discount of x cents per gallon below the posted price. The conditions of the sale were that the drilling contractor provided his own storage and he picked up the fuel at the refinery and paid for the transportation of it to the drilling site.

A competitor obtained a copy of a sales slip showing the discounted price but not the conditions of the sale. The competitor offered the drilling contractor a price discounted a further 2c per gallon below his existing discount, and in addition, the oil company offered to bear the costs of transportation to the drilling site. Other drilling contractors in the area soon became aware of the new price and asked for and obtained, diesel at the same price and conditions, which was far below prevailing prices for diesel throughout most of the rest of the Province. The offer of the second company was made in the mistaken assumption that the first company was also paying for transportation to the drilling site.

He expressed the view that commercial discounts are frequently established by accidents of this sort. He very strongly expressed the view that there was no justification for the large differential between the high prices paid by service stations and the heavily discounted prices offered to commercial consumers. He believes that the service station pays too much, and that contractors, department stores, and other commercial consumers pay too little, and that in effect, the motorist who buys from a service station is subsidizing the commercial consumer.

Professor Barna of The Monopolies Commission in Great Britain stated:

"The prices charged to the retailer and the various benefits given to him by Suppliers, are essentially discriminatory and are in no way related to costs of distribution. In the first place, a distinction is made between commercial customers and retail customers which is not based on economic criteria. Commercial customers enjoy certain advantages over retailers which are not related to quantities purchased."

Table 155 indicates discount ranges and in each range it shows the classification of the customer and the volume purchased by each customer in transactions selected at random from various companies.

Table 155  
Commercial and Industrial Consumers' Discounts — Alberta, 1965

Discount Range	Classification or Description of Purchaser	Volume (in Gals.)	Posted Price for Place of Delivery	Price Paid	Net Realization by Oil Company	Average Net Realization by Oil Company
up to 1½¢	Lumber	1,000	21.3	20.50	17.52	17.84
	Lumber	3,000	21.3	20.70	17.72	
	Transport	3,900	21.5	20.0	17.6	
	Construction	12,900	22.1	20.6	17.1	
	Driller	1,000	23.8	22.4	20.5	
	Trucker	2,000	24.2	23.2	21.3	
	Contractor	500	23.6	22.6	18.44	
	Construction	3,850	21.3	20.3	17.8	
	Contractor	94	24.9	23.9	18.32	
	Transport	1,300	21.3	20.7	18.80	
1½¢ to 2½¢	County	2,000	21.29	18.89	14.91	16.56
	Trucker	7,000	24.6	23.10	16.53	
	Manufacturing	17,700	21.5	19.0	16.6	
	Construction	29,700	21.5	19.0	16.1	
	Trucker	2,000	21.3	19.3	17.4	
	Miner	3,000	23.8	21.5	19.6	
	Government	90	21.9	19.7	14.8	
	Equiper	3,050	21.3	19.30	16.8	
	Lumber	100	24.4	22.4	18.73	
	Contractor	4,750	24.7	22.5	17.53	
2½¢ to 3½¢	Construction	1,000	21.3	18.50	15.52	16.02
	Construction	5,000	24.3	21.60	18.02	
	Railway	2,200	21.5	18.0	15.6	
	Transport	41,300	21.5	18.0	15.6	
	Trucker	1,000	21.3	17.5	15.6	
	Trucker	10,000	21.3	18.2	16.3	
	Driller	450	22.4	18.9	14.85	
	Trucker	4,200	24.1	20.6	15.97	
	Miner	85	24.9	21.9	16.32	
	Government	17,800	23.6	20.6	16.42	
3½¢ to 4½¢	Wholesaler	1,000	21.3	17.36	14.27	15.17
	Trucker	11,000	21.3	17.20	13.29	
	Railway	2,200	21.5	18.0	15.6	
	Transport	41,300	21.5	18.0	15.6	
	Trucker	1,000	21.3	17.5	15.6	
	Trucker	4,000	21.3	17.7	15.8	
	Contractor	500	21.3	17.5	14.8	
	Laundry	3,700	21.3	17.65	15.15	
	Lumber	300	25.0	21.0	15.95	
	Transport	4,340	21.3	17.05	15.15	
4½¢ to 5½¢	Manufacturer	1,000	21.3	16.14	13.07	14.44
	Transport	7,000	21.3	16.20	13.22	
	Taxi	7,000	21.5	17.0	14.6	
	Transport	98,100	21.5	17.0	14.6	
	Government	1,000	24.4	19.7	17.8	
	Government	12,000	21.3	15.8	13.9	
	Contractor	445	21.3	16.29	13.79	
	Contractor	5,695	21.3	16.30	13.10	
	Transport	820	21.3	16.03	14.13	
	Builder	9,242	21.3	16.8	14.90	
5½¢ to 6½¢	Manufacturer	1,000	24.0	18.40	15.40	13.09
	Government	8,000	24.3	18.60	12.87	
	Manufacturer	3,200	21.5	16.0	13.6	
	Construction	193,000	21.5	16.0	13.1	
	Trucker	1,000	21.3	15.2	13.3	
	Trucker	10,000	21.3	15.6	13.7	
	Trucker	500	21.3	15.4	12.59	
	Contractor	7,150	21.3	14.98	11.50	
	Transport	1,100	21.3	15.35	13.45	
	Contractor	5,212	21.3	15.3	13.40	
6½¢ to 7½¢	Trucker	6,000	23.3	16.10	13.11	12.21
	Trucker	18,000	23.3	16.10	13.09	
	Transport	24,000	21.5	15.0	12.6	
	Construction	23,700	21.5	15.0	12.1	
	Contractor	1,000	21.3	14.7	12.8	
	Government	6,000	21.3	13.9	12.0	
	Contractor	9,650	21.3	14.35	11.64	
	Manufacturer	1,800	21.3	14.3	12.40	
	Builder	38,700	21.3	14.3	12.40	
	Government	2,000	25.0	17.05	13.96	
7½¢ to 8½¢	Construction	6,100	21.5	14.0	11.1	11.20
	Taxi	6,100	21.5	13.5	11.1	
	Transport	16,300	21.5	14.0	11.6	
	Store	2,000	21.3	13.4	11.5	
	Government	12,000	21.3	13.4	11.5	
	Government	1,200	21.3	13.33	11.03	
	Government	115,320	21.3	13.33	11.03	
	Trucker	5,700	21.3	13.13	10.39	
	Supplier	17,100	21.3	13.62	11.72	

Source: Questionnaire 21, Question 118.

Attempts are sometimes made to explain discounts to commercial consumers by speaking of refining economies. In considering costs of refining it was concluded that there are economies of scale. The larger the refinery, the lower is the capital investment and the lower is the fixed cost per gallon of refining.

However, this is an economic factor which is taken into consideration before refineries are built in an area. Refineries are built in an area to meet the market demand of that area, and once they are built, the scale or size of the refinery on which fixed costs per barrel of refining are based is a question of fact which cannot be varied when fixing current prices or discounts. The economies of scale should be shared by the motorist and by all others whose purchases make possible a refinery of that scale.

In considering discounting, the incremental refining cost of producing incremental gallons is small, being mostly the additional variable costs. The variable costs for refineries of the approximate size of those in Alberta range from 8c to 11c per barrel, which is roughly from  $\frac{1}{4}$ c to  $\frac{1}{3}$ c per gallon.

However, refining is only one element of the oil company's cost and this must be kept in perspective. It is a smaller element than the price of crude oil, and both are smaller than the cost of marketing.

The total cost of refining is only approximately 3c out of the commercial posted price of 21.3c and discounts to commercial consumers range up to 10c per gallon.

No matter what savings can be effected in the cost of refining by economies of scale or for incremental gallons, the price discounts granted to commercial customers range up to three times the total cost of refining. Discounts granted are far from being accounted for by economies in refining alone.

So far as economies of marketing are concerned, the oil company saves approximately 3c per gallon when it sells directly to a large commercial consumer with large storage, by eliminating the marketing expense differential of handling through bulk storage and by eliminating the commission payable to a bulk agent.

However, the oil company enjoys the same economies in selling to its dealers, the tied service stations, who are also served by direct tank truck deliveries and who also have their own storage.

In the opinion of the Committee, the price structure would be fairer if the dealer posted price, on the one hand, was 3c per gallon lower than the two consumer posted prices on the other hand, namely—for farm consumers, and for commercial and industrial consumers. This could be accomplished at least in part, by lowering the dealer posted prices.

For those commercial and industrial consumers who directly purchase large volumes and have large storage, discounts could be granted as at present to reflect the savings in marketing cost by elimination of handling through bulk storage and commissions.

#### **(4) Brand & Off-Brand Pricing**

The fully integrated oil company produces, refines and markets.

Its own production of crude oil is supplemented by the production of independent producers which is purchased by its refining division.

An integrated oil company may dispose of its refined products in two ways:

- (a) a majority is transferred to its marketing division which sells products under its brand name.
- (b) A small percentage is sold by its refining division to wholesalers who do not use the integrated company's brand name.

The marketing division selling brand name products sells to the three markets

- (a) automotive, through brand name retail outlets;
- (b) farm, through brand name bulk outlets;
- (c) commercial and industrial, through brand name bulk outlets or direct from the marketing division.



The off-brand wholesaler may also sell to one or more of the three markets through off-brand outlets.

This is illustrated by Chart 95 which shows the two points of sale for integrated companies and the percentages of refined products disposed of by each method.

The off-brand wholesaler and the off-brand outlets to which it sells perform the functions of a marketing division and of the brand name retail outlets supplied by the marketing division.

Some off-brand wholesalers are very small. They may supply as few as one or two retail outlets and their annual purchases may be less than that of a single brand name service station.

The off-brander is frequently thought of as performing the retail function only, particularly where the wholesaling and the retailing are performed by the same company. For instance, the department stores, such as Woodward's and Simpsons-Sears, are off-brand wholesalers who supply their own retail outlets at their various department stores or shopping centre locations.

However, whether the off-brander is small or large

- (a) he doesn't acquire any of the advantages associated with the integrated company's brand name,
- (b) he purchases from the refining division, and the integrated company does not incur any expense in its marketing division in respect of his purchases.

Gasoline purchased off-brand from a refining division

- (a) must bear its own wholesaling cost; and
- (b) must bear its own retailing cost.

The refining division of an integrated oil company transfers gasoline to its own marketing division and sells, transfers, or exchanges gasoline with other integrated oil companies with refineries at a lower price per gallon than it will sell to off-brand jobbers or wholesalers.

The off-brand retailer who wishes to attract customers is not competitive on the basis of a nationally advertised brand name, or a nationally acceptable credit card and his only practical approach is to compete by offering a lower price than the brand name retailer.

The off-brander, accordingly, operates in the narrow limits between the higher wholesale price he has to pay and the lower retail price he has to offer, as compared with the integrated oil company from whom he has to purchase his products and with whom he has to compete.

As the off-brander has a smaller range between his wholesale price and his retail price than does the integrated oil company, he can only exist so long as his combined costs of wholesaling and retailing are well below those of the integrated oil company.

The higher the retail margin of brand name service stations becomes, the more scope the off-brander has to operate. If brand name dealers raised their retail prices this gives more margin to off-brand retailers which enables them to compete more effectively in price. The risk of off-brand competition inhibits brand name dealers from increasing their prices and margins.



CHART 95  
POINTS OF SALE FOR INTEGRATED COMPANIES — ALBERTA 1965

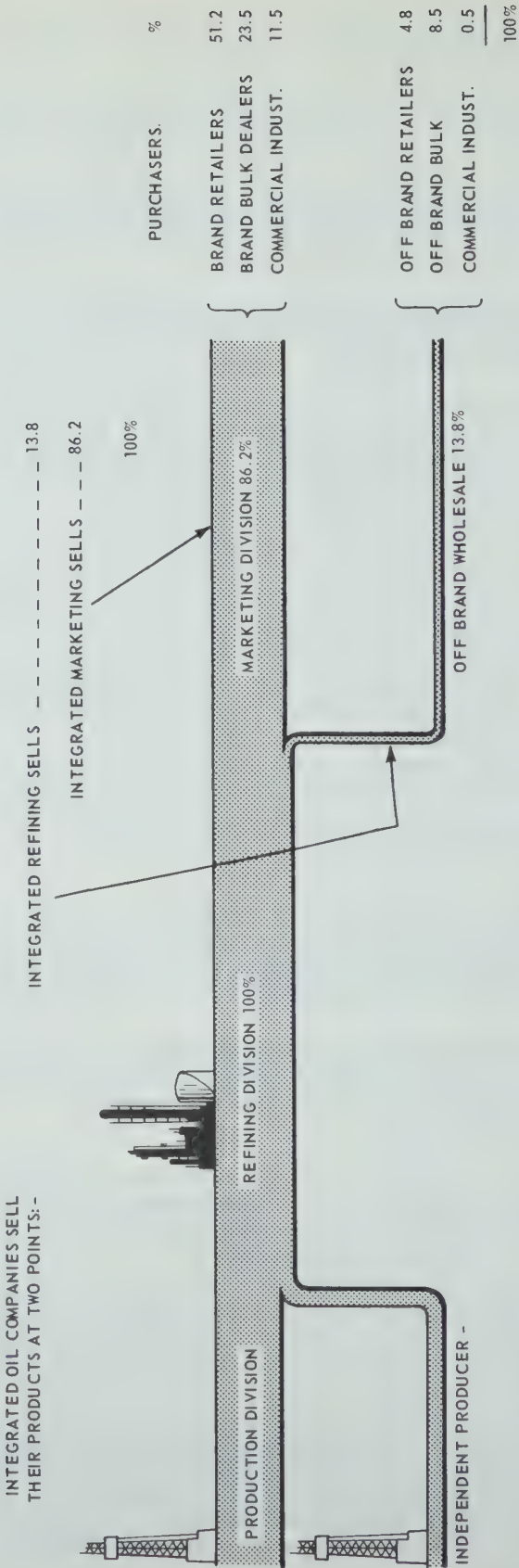


Table 156

**Comparison of Marketing Mark-up — Brand Names with Off-Brand, Regular Gasoline —  
Alberta, 1965**

**The off-brander sells at a lower price**

Price sold in c. per gal. by:	
Brand name retail outlets .....	39.9
Off-brand retail outlets .....	37.9
Difference in price received .....	<u>2.0c</u>

**The off-brander buys at a higher price**

Price paid in c. per gal. by:		Purchases	Transfers Exchanges
Off-brand wholesalers .....		14.5	(14.5)
Marketing divisions of integrated companies .....		13.2	12.6
Difference in price received .....		<u>1.3c</u>	<u>1.9c</u>

**Brand margin exceeds off-brand margin**

Off-brand cost is higher .....	1.3	1.9
Off-brand price is lower .....	2.0	2.0
Off-brand margin is less by .....	<u>3.3c</u>	<u>3.9c</u>

**Brand Name Mark-up — Regular Gasoline — Automotive Market — Alberta, 1965**

	Purchases	Transfers Exchanges
Marketing Division sells (P.D.T.T.P.) .....	19.8	(19.8)
Marketing Division acquires .....	13.2	12.6
Marketing Division Mark-up .....	<u>6.6</u>	<u>7.2</u>
Marketing Division Mark-up .....	6.6	7.2
Retail Service Station Mark-up .....	8.1	8.1
Brand Mark-up (Marketing Division and Retail) .....	<u>14.7c</u>	<u>15.3c</u>

Source: Gasoline Marketing Enquiry Records.

**The integrated company refining division supplies**

- (a) the integrated company marketing division; and
- (b) the off-brand wholesaler.

**The off-brand wholesaler:**

- (a) pays more for gasoline to the integrated company refining division than is paid by the marketing division of the integrated company;
- (b) competes for retail outlets with price; and
- (c) must sell to retailers for less than the brand name marketing division sells to its retailers.

**The off-brand retailer:**

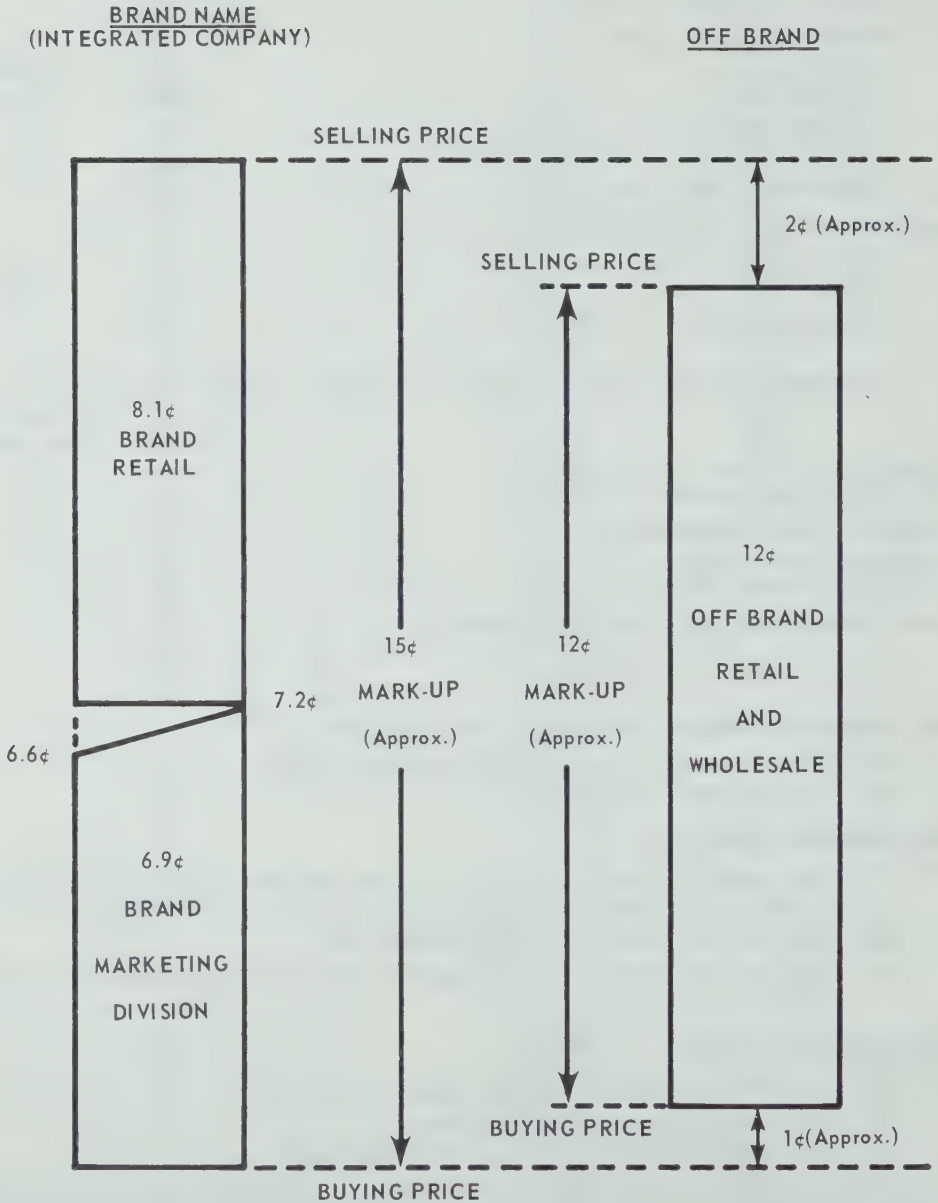
- (a) pays less for gasoline than the brand retailer pays;
- (b) competes for customers with price;
- (c) charges the motorist less than the brand retailer.

The off-brander pays more for his gasoline at wholesale and receives less when he sells it at retail than does the marketing division and brand retail outlets of the integrated company with which he competes. Off-brand wholesalers and off-brand retailers exist on the narrow differential that integrated companies allow between

- (a) the price paid to the refining division of the integrated company for off-brand gasoline; and
- (b) the lower price that will attract some motorists to buy off-brand gasoline.

# COMPARISON OF MARKETING MARK-UP

BRAND NAME WITH OFF BRAND  
REGULAR GASOLINE - ALBERTA 1965



The OFF BRANDER: (a) Buys at a higher price.  
 (b) Sells at a lower price.  
 (c) Operates on a smaller margin.

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

This differential can be narrowed

- (a) if the refining division of the integrated company increases its price to the off-brand wholesaler; and
- (b) if brand-name retailers lower their retail price.

The off-brand retailer who has to sell his gasoline for a lower price to attract customers, has the same costs as the brand-name retail outlet, and requires the same mark-up.

Accordingly, the off-brand wholesaler must sell for less than the marketing division of the integrated company, while at the same time he pays a higher price than does the marketing division of the integrated company.

This is illustrated by Chart 97, where it appears that the off-brand wholesalers mark-up is 3.9c as compared to the integrated companies marketing division mark-up of 6.9c.

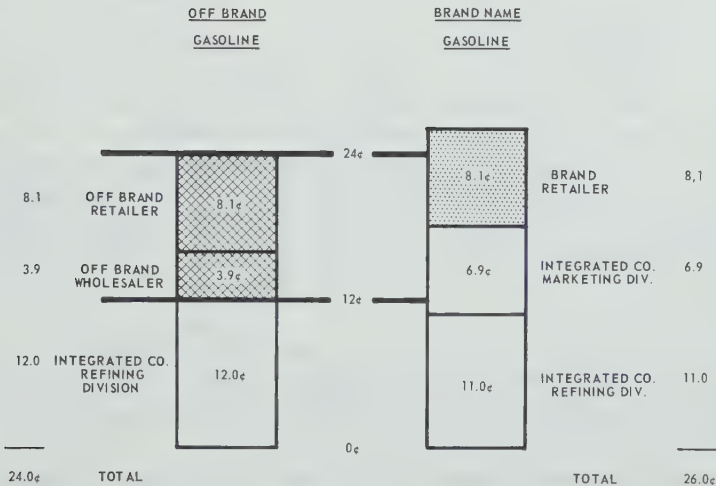
In such circumstances the off-brand wholesaler is particularly vulnerable in a price war with an integrated company. A price decrease of 3.9c would entirely eliminate the off-branders's wholesale mark-up, and would still leave a 3c mark-up to the integrated company's marketing division which is relatively close to its actual cost of marketing.

Accordingly, the off-branders who wishes to remain in business doesn't permit a retail price differential in excess of that tolerated by the major brand name integrated oil companies. The generally accepted differential appears to be 2c per gallon and it is rare that an off-branders will drop his prices more than 2c below the integrated brand retail price in his community.

CHART 97

### OFF BRANDS

#### LIMITED ABILITY TO COMPETE



### Wholesale Mark-up

Off-brand wholesaler	3.9
Integrated Company Marketing Division	6.9

A price reduction of less than 4c, which could eliminate the off-brand wholesaler's mark-up, could readily be absorbed by the integrated company.

The integrated company can reduce the off-brand wholesaler's margin by increasing the negotiated price charged by its refining division to the off-branders for his gasoline.

Source: Gasoline Marketing Enquiry Records.



A subsidiary of one of the "cartel" companies stated that a price differential of from 1c to 2c per gallon would attract from 10% to 15% of the automotive market in a community to the cheaper priced outlets.

When the off-brander is small, his wholesaling costs are lower than those of the integrated company and he can compete in retail price. As the off-brander increases in size, his wholesaling costs rise and become more comparable to the costs of the marketing division of an integrated company. However, as the off-brander has three or more cents less margin between his wholesale cost and retail price than the margin of the integrated company, the off-brander can't build or finance chains of service stations comparable to those built by the marketing divisions of integrated companies as part of their wholesaling costs.

### (5) Premium Gasoline Price Differential

Generally two grades of gasoline are sold to the automotive market, namely — premium, and regular. In 1965 approximately twice as much regular was sold as compared with premium, and premium accounted for approximately one-third of the total volume of the automotive gasoline market in Alberta.

Table 157

#### Sales of Premium and Regular Gasoline — Alberta, 1965

	Sales of Premium Gasoline	Sales of Regular Gasoline	Total Sales of Gasoline
"Cartel" Brand .....	75,184,000	147,176,000	222,360,000
Total all Brands .....	79,963,000	164,454,000	244,417,000
		% Premium Sales	% Regular Sales
"Cartel" Brand .....		33.8%	66.2%
Weighted Average, all brands .....		32.7%	67.3%

Source: Gasoline Marketing Enquiry Records.

In the October 1968 issue of the publication "Consumer Reports" an article entitled "Buying Gasoline" reads in part as follows:

"Car owners are still encouraged to buy 'premium' rather than 'regular' when in doubt — a doubt that the industry itself perpetuates by not giving the buyer the necessary information to help him decide what his car needs . . . When we wrote about gasolines in 1962 and in 1963, we said that buying a higher-octane gas than your car's engine requires is a waste of money. The advice still stands. And the results of this year's price/octane survey suggest again that buying the lowest-priced gasoline that meets your car's octane requirements will save you money without significant cost in performance . . . As sources of energy, too, most brands of gasoline of the same designation — 'regular' or 'premium' — are very similar. They may differ considerably in chemical composition but little in effect. So once you've hit upon the right octane value for your car, additional octanes per se give you no additional power or performance; and other brands of similar octane value will satisfy about as well."

In general, at the retail pumps, the price of premium gasoline is 5c per gallon above the price of regular gasoline. When the service station operator buys gasoline from a marketing division of an oil company, he pays 5c per gallon more for premium than for regular.

The Royal Commission on gasoline price structure in British Columbia found the same thing, namely — that

"The differential in the dealer posted tankwagon price to dealers between premium and regular gasoline was 5c in 1963."

The following quotations are extracted from the B.C. Report, pages 124 and 125.

"The major oil companies would prefer to sell premium gasoline rather than regular gasoline because of the higher revenue which they would receive from such sales."

"One of the questions sent to the oil companies who operate refineries was:

'What was the incremental cost of producing premium gasoline as against regular gasoline?'

Only one company attempted to answer this question. According to a calculation made by this company, the incremental cost saved if only one grade of gasoline were produced would be in the neighborhood of 1½c a gallon."

"There is a reference in the Note of Dissent by Professor T. Barna (United Kingdom Monopolies Commission, Report on Petrol) to the difference in the cost of production of premium gasoline over regular gasoline. He considered that, based on the evidence of Mobil, the cost differential was only 1¼d. a gallon."

"I am of the opinion that the 5c differential between premium and regular gasoline is not justified. I believe the tankwagon price of premium gasoline should be dropped 2c and I recommend this be done, without any offsetting price adjustments being made by the oil companies."

In looking at gasoline acquired by the marketing divisions of various oil companies by transfer, exchange, etc., either from the refining division of their own company or from the refining divisions of other companies we found sales of regular and of premium at very slight differences in price.

In some cases we found premium and regular were sold or exchanged at the same price. For instance, in one transaction between two companies the premium was disposed of at 11.39c per gallon and the regular was also disposed of at 11.39c per gallon.

In another case involving two companies premium and regular were both priced at 11.40c per gallon. In another case involving two companies premium and regular were both priced at 12.70c per gallon.

In other instances there were dispositions from a refining division to a marketing division where the premium was priced at slightly less than the regular gasoline. For instance, in one disposition, the premium was priced at 11.71c per gallon, whereas the regular was priced at 11.81c per gallon. In another case, premium was priced at 11.85c per gallon and regular was priced at 11.89c per gallon. In another case the premium was priced at 11.49c per gallon and the regular was priced at 11.51c per gallon. In another transaction, the premium was priced at 11.52c per gallon and the regular was priced at 11.56c per gallon.

There were other transactions between refining divisions and marketing divisions where premium was transferred at a higher price than regular. For instance there were transactions between different companies where the price for premium exceeded that of regular by differentials such as 2.44c, 2.49c, 2.64c, 2.87c.

Such evidence as has been obtained by the Gasoline Marketing Enquiry Committee of Alberta leads us to agree with the finding of Judge Morrow in B.C. that the differential in cost between premium and regular is considerably less than the 5c differential in price which marketing divisions charge to service station operators.

The following quotation is taken from the report of The Monopolies Commission on the supply of petrol to retailers in the United Kingdom —

"whereas the difference in the buying price of retailers between premium and standard grades was 4d. a gallon at the beginning of 1965, the difference in costs of production was only 1 1/4 d. The additional 2 3/4d. profit which the supplier obtained was, of course, substantial in relation to wholesale prices."

So far as the service station operator is concerned, it seems clear that if there is a 5c differential in his cost, then it is reasonable that there should be a similar differential in his resale price to the motorist.

So far as the oil company is concerned, if the cost of premium gasoline is very close to the cost of regular gasoline, the oil company, by selling the premium to service stations at a considerably higher price, will obtain a larger profit than it does on regular.

The higher price for premium does not benefit the service station or the off-branders who both have higher purchase costs for premium, but it increases the profits of the "cartel" companies which own the refineries and produce the premium gasoline.

## (6) Impact of Price Changes

	Motorist Cost	Dealers Share	Oil Company Share
One gal.	.40	.08	.20
Average purchase of 7 gals.	2.80	.56	1.40
Average annual purchase of 586 gals. for one vehicle	= \$234.40	= \$46.88	= \$117.20

	Dealer	"Cartel" Brand Companies
Annual Sales	100,000 gals.	222,750,000 gals.
in Dollars	@ .08 = \$8,000.00	@ .20 = \$44,550,000.00

	If motorist pays increase	If dealer obtains increase	If Oil companies obtain increase
Effect of .01 per gal. increase in price	586 gals. @ .01 = \$5.86 per year	100,000 gals. @ .01 = \$1,000.00 per year	222,750,000 gals. @ .01 = \$2,227,500.00 per year
If consumer price increases motorist pays	1¢ per gal.		\$5.86 more per year
If dealer mark-up increases dealer receives	1¢ per gal.		\$1,000.00 more per year
If "Cartel" Brand companies increase posted T.W. prices "Cartel" companies receive	1¢ per gal.		\$2,227,500.00 more per year

Dealers and the companies are more interested in price changes than the motorist because the impact is greater. There is a conflict of interest between oil companies and operators as to who will obtain any price increase.

If dealers increase retail price and oil companies do not in- crease posted D.T.W. prices, Dealer receives	1¢ per gal.	\$1,000.00 more per year
If "Cartel" brand companies increase posted D.T.W. prices, and can persuade their dealers to continue selling to motorists at the same retail price, "Cartel" Brand companies receive	1¢ per gal.	\$2,227,500.00 more per year

The gasoline dollars paid by customers are shared by the oil company and its dealers.

The integrated oil company has more scope to increase its prices and profits if its brand name dealers keep their mark-ups at a minimum.

Assuming the price to the customer remains the same:—

- if dealers were not "tied" and had bargaining power, it would be in their economic interest to bargain for a lower price from the oil company, to increase the dealer's profit;
- it is in the oil company's economic interest to force down the retailer's mark-up, which leaves room for the oil company to increase its posted T.W. prices to its dealers.

The subsidiaries of four "Cartel" companies, in Alberta alone, make \$2,227,500.00 for each cent per gallon of the customer's money which they can obtain instead of their retailers.



It is this economic fact which must account in part for some of the strange behavior of oil companies and the economic slavery of the retail dealer. This powerful motive explains and is consistent with:—

- (a) the web of ties which bind the operator, making it impossible for him to purchase from another oil company, and therefore equally impossible for him to bargain for a lower price from the oil company to which he is tied;
- (b) the lack of competitive pressure on the uniform posted price adopted by the oil companies, because “tied” volume cannot switch to take advantage of a price differential if there was one;
- (c) oil company encouragement of price competition between retail dealers which keeps their profits at a minimum, enabling the oil company to obtain the maximum proportion of the customer’s dollars;
- (d) the minimum subsistence level of the dealer’s earnings, which still further weakens his ability to bargain with the oil company, and isn’t attractive enough economically to encourage the entry of owned outlets, which are not tied and would have bargaining power.

**(7) The Price Squeeze on the Service Station Operator**

The integrated oil industry makes no profit on any of its divisions until its production is sold to a purchaser. The purchaser of automotive gasoline from the oil companies is the service station operator. The sale price to the service station operator determines the oil company’s profit for all of its divisions—exploration, production, refining, transportation, and marketing.

Of the long list of products produced from crude oil, how important are the gasolines?

In North America gasoline has been the mainstay of the profit structure of the oil industry. There is no competitive fuel for the millions of automobiles and trucks upon which we depend for transportation.

In Alberta, the importance of gasolines in refinery output and realization is shown in Table 158.

Table 158.  
REFINERY OUTPUT & REALIZATION  
Alberta, 1965

	Percent of Total Refinery Output	Percent of Total Refinery Dollar Realization	Realization Per Gallon of Product
Gasolines .....	52%	59%	19.71¢
Middle Distillates .....	35%	36%	14.55¢
Other Products .....	13%	5%	5.71¢
<b>TOTAL</b> .....	<b>100%</b>	<b>100%</b>	

Source: Questionnaire 18, Question 108.

The output of the refineries in Alberta is divided into three classifications of products, namely—gasolines, middle distillates, and other products. Gasolines account for 52% of the total, middle distillates 35% and all other products 13%. This corresponds roughly with United States production of refined petroleum products illustrated in Chart 75.

Of the three classes of products, gasolines realize the highest price per gallon, 19.71¢, as compared with middle distillates at 14.55¢ and other products at 5.71¢.

The gasolines account for the greatest percentage of dollar realization, being 59%, as compared with middle distillates 36%, and other products 5%.

The gasolines include premium gasoline, regular gasoline, tractor gasoline, aviation gasoline and naphtha.

The middle distillates include diesel, heating fuels, stove oils, and aviation turbo fuel.

Other petroleum products include bunker oil, coke, asphalt, wood preservatives, etc.



Some petroleum products which compete with other energy sources or with other products tend to be low in price to be competitive. This would apply to the "other products" such as bunker oil, coke, asphalt, etc., which give an average realization of 5.71¢ per gallon. Although they account for 13% of refinery output, they produce only 5% of the realization.

Gasolines account for the highest price per gallon of refinery production. Refineries have a measure of control over what products they produce, and the quantities of each and they adjust their process to produce more gasoline than any other product. Oil companies realize more dollars from the sale of gasolines than from the sale of all other petroleum products combined.

The highest price obtained for gasoline is obtained when it is sold through "tied" service stations. From tables 147 and 148, the comparative prices of regular gasoline are—

- (a) 19.8¢ per gallon from service station dealers;
- (b) 18.87¢ per gallon from the farm market;
- (c) 15.86¢ per gallon from the commercial and industrial market.

Fifty-six percent of the gasoline goes to the automotive market as indicated in Table 143, whereas, only 32% goes to the farm market, and 12% to the commercial market.

About one-third of the gasoline sold to service station dealers is premium gasoline, from which the oil companies realize about 5¢ per gallon more than regular, or 24.8¢ per gallon.

On all of its production, an integrated oil company realizes the highest price per gallon from selling to "tied" retail outlets.

Oil companies are extremely efficient businesses. The vast resources of the international oil companies are focused on extracting as much revenue from the sale of their products as they can get.

If the "cartel" subsidiaries in Alberta can devise a method of getting 1¢ more per gallon out of their "tied" outlets, this adds two and three-quarter million dollars per year to their profits. In such circumstances, it is little wonder that the service station dealer finds himself under overwhelming economic pressure.

The oil companies are constantly putting the squeeze on the service station dealer to get all they can from him in any way they can. They extract money from his business in the following ways—

- (a) the brand name dealer pays the highest price for gasoline of any purchaser;
- (b) the lessee dealer pays rent, which (although subsidized to help eliminate his independent competition) increases with his volume of business and is as high as that volume will support;
- (c) "full-line forcing" is used to compel the "tied" outlet to buy a variety of other products from the oil companies on which they make a profit;
- (d) the dealer's buying is directed to "suggested suppliers" with whom the oil company has market access agreements and from whom it obtains a commission on all sales;
- (e) the dealer is compelled to contribute to the advertising of the oil company's brand name products by paying for tickets, game chances or merchandise that he is required to give away;
- (f) a percentage of the dealer's earnings from repairing automobiles is obtained by the oil company by basing the dealer's rentals on total retail volume;
- (g) owned service stations, by buying gasoline, pay part of the cost of oil company service stations, because costs of service stations owned by oil companies are included in the wholesale price charged for gasoline;
- (h) oil company owned stations are operated by lessees rather than by employees partly because lessees invest and risk their savings in inventories and equipment to facilitate the sale of the oil company products and lessees bear retail losses.

At the same time, as the oil companies are trying to obtain as much money from the dealer by as many means as they can devise, they are also using methods to reduce the service station dealer's markup. The following are methods by which the service station operator's markup is forced down—

- (a) by providing off-branders with gasoline at a price which enables them to retail below the brand name retail price;
- (b) by operating strategically located stations by employees or retail commission agents so that the oil company can fix prices below those of its brand name dealers;
- (c) by instituting commission consignment at intervals, which substitutes a rate of commission which is less than the operator's normal markup;
- (d) by issuing commercial credit cards to customers which obligate the dealer to dispense gas for a commission which is less than his normal markup;
- (e) by compelling the operator to contribute to special advertising promotions advertising the oil company's brand name products which has the effect of reducing the operator's markup;
- (f) by offering reductions of dealer tank wagon prices conditional upon the dealer granting a larger reduction in price to the customer;
- (g) by advertising prices directly to the motorist which compel the dealer to reduce his markup, so that the price to the customer will be "as advertised".

These methods used by the oil companies to bring pressure to bear on service station operators to lower their retail prices are discussed in detail in chapter 34.

Accordingly, the service station operator is tied by interwoven restrictive contracts to a single oil company and he has no reasonable prospect of being able to free himself from such ties. The oil company then applies pressure on him by a number of means to obtain from him a greater share of the motorist's dollar. At the same time, the oil company is applying another series of pressures on him to reduce his markup. In this kind of economic squeeze, the rate of business failure among service station operators is approximately 20% per year. The oil companies then attract new lessees to invest their capital and labor in promoting the sale of oil company products by glowing advertisements about freedoms and profits which are not realized by most service station operators.

## CHAPTER 34. INDUSTRY METHODS OF INFLUENCING RETAIL PRICE

### (1) Retail Competition from Off-Brands

The subsidiaries of "cartel" brand companies own all of the refineries in Alberta. They supply refined gasoline to their marketing division, which supply through their brand name retail outlets 86% of the gasoline marketed.

Less than 9% of the Alberta market is supplied by off-branders. The off-brand wholesaler purchases his supplies of gasoline from an integrated oil company with a refinery and with whose retail outlets he will compete. The small off-brand is not competitive in national advertising, in nationally acceptable credit cards, or in brand name, so it is inevitable that the off-brand's principal method of attracting customers will be by a lower price.

Why does a "cartel" company supply an off-brand wholesaler with gasoline at a price which enables the off-brand to sell at a lower retail price than the refiner's brand name service stations?

There is no doubt that the availability of off-brand gasoline to motorists at a cheaper price than brand name gasoline deters brand name retailers from increasing their mark-up.

The Committee has the impression, from numerous oil company executives engaged in the marketing of gasoline, that a price differential of from 1c to 2c per gallon will attract about 10% of the market.

Integrated oil companies with refining facilities as well as marketing facilities supply 10% or 15% of their refined production to off-branders at a price fixed by the integrated company. This price is low enough that the off-brand can supply a relatively small percentage of the market at a price which is 1c or 2c below what the integrated company considers should be its brand name retail price. The existence of an off-brand retailer, who is able to sell gasoline at such a price, is a strong deterrent on the brand name dealer from increasing his price. If the spread between brand name gasoline and off-brand gasoline exceeds 2c a gallon at retail, increasing percentages of customers will find it worthwhile to switch their purchases from the brand name dealer to the off-brand dealer. The brand name dealer who will obtain more profit per gallon by increasing his price 1c per gallon knows that this may be offset by a loss of volume.

In the Imperial Oil Limited presentation to the Royal Commission on Gasoline Price Structure in the Province of British Columbia, they reported on a survey of the attitudes of motorists to price as follows—

"Motorists were asked what price differential would prompt them to switch from one major brand to another or from a major brand to a private brand gasoline.

Their replies indicated that motorists will begin switching their business in significant numbers when price differentials reach or exceed one cent. The survey supported the commonly accepted conviction that it takes a larger price differential to attract a customer away from a major brand dealer to a private brand dealer than it does to get them to switch from one advertised brand to another. Customers apparently place more reliance on or expect more services, etc. from doing business with a major brand dealer than they do with nonbrand dealers and are willing to pay some differential for that additional service or guarantee of quality."

The wholesalers or off-branders consider they are tolerated, or permitted to exist, so long as the differential between the retail price of the outlets they supply doesn't drop lower than 2c per gallon below prices at brand name outlets. If the difference exceeds 2c, larger numbers of motorists will begin to transfer their business, because price differential becomes sufficiently attractive to outweigh brand name convenience and service.

If a brand name dealer increases his mark-up too high, he begins to lose volume to cheaper outlets — the off-branders.

Therefore, the off-branders whose small price differential normally attracts only a small percentage of the market, prevent brand name dealers from unduly increasing their mark-ups without the risk of loss of volume.

The owners of off-brand wholesale companies are frequently persons who were formerly employed in the marketing divisions of integrated oil companies.



The Committee interviewed several persons who are either operating off-brand oil companies or who formerly operated them and subsequently sold out to integrated companies, who are the usual purchasers. These men clearly believe that they would have difficulty obtaining supplies of gasoline, or that the "cartel" companies would institute a price war in their particular area of operation if they reduced their retail prices more than 1c or 2c below the brand name retail price in their area. They appear equally confident that if their retail prices are not more than 1c or 2c a gallon lower than the brand name retail prices, that they will be free from sanctions or interference by the brand name oil companies who supply them.

Officers of wholesalers told the Committee that the "cartel" companies could put them out of business whenever they chose, simply by increasing the price at which gasoline is made available to them, or by being "unable" to supply them.

The owners of off-brand oil companies are extremely conscious of their vulnerability and they take pains to avoid situations which may annoy the integrated companies from whom they now obtain their supplies, or with whom they may in the future have to negotiate. They are well aware that—

- (a) they are totally dependent for supply of product on a small group of refiners with common practices and with whose retail outlets they compete;
- (b) the off-brander pays more for his product than the cost of such product to the integrated company, so he can be losing money at prices which will still produce a profit for his opposition;
- (c) a price war which covers the off-brander's entire market area would involve a price reduction in only a small fraction of the market of his integrated competitor.

Accordingly, the off-branders are normally desirous of operating within the limits tolerated by the integrated companies who supply them.

A portion of an Alberta city is served by several "cartel" brand outlets, a department store outlet, and an off-brand outlet. The off-brand outlet and the department store outlet were both selling at 2c per gallon less than the prevailing retail price in the "cartel" brand outlets. At that point in time a small tax increase occurred, as a result of which the brand name outlets raised their prices 1c per gallon. The off-brand outlet immediately followed suit by raising its price 1c per gallon to maintain the former 2c price differential. The department store, however, did not immediately raise its price.

We discussed the matter with the off-brander at the time and he was clearly in a dilemma, which was giving him great concern. He pointed out that if there was a difference of 1c in price, between the department store and the off-brander, for any period more than 10 days, the volume of the off-brand outlet would decline as its price conscious customers would transfer their purchases to the department store. Accordingly, if the department store failed to increase its price by 1c, the off-brander was under compulsion to drop his price 1c to retain his volume.

On the other hand, if the off-brander dropped his price, he had serious fears that a 3c price differential between brand name outlets on the one hand, and the off-brander and department store on the other hand, would make the brand name companies unhappy. He did not wish to be involved or identified in the eyes of the brand name companies with this degree of price cutting, and he feared the brand name companies would retaliate with a price war in which he could suffer the greatest injury.

The off-brander is not just concerned with the brand name company he is currently dealing with to obtain supplies. For instance, an executive of another off-brand company advised us that his purchase contract was with an integrated company which had no refineries in Alberta. However, in accordance with the usual practice, that integrated company had exchange agreements with "cartel" brand companies operating refineries in Alberta. Accordingly, the gasoline purchased by the off-brander was in fact picked up at the Alberta refineries of either of two "cartel" brand companies. These refiners charged the integrated company with whom the off-brander had his current contract, for the gasoline so picked up, and the integrated company in turn billed the off-brander for the gasoline.



In another case, an off-branding drew to our attention a situation where a department store had reduced its price per gallon so that too great a differential existed between its prices and brand name outlet prices for too long a period. Brand name outlets surrounding the department store dropped their prices to 1c above the department store prices. When the department store dropped a further 1c to increase the differential, the surrounding "cartel" brand stations promptly dropped their prices. Each time the department store dropped 1c the surrounding brand name stations did likewise.

In the opinion of the off-branding, this procedure amounted to the "cartel" serving notice on the department store that its members would tolerate a differential of 2c, and no more, without responding. When the department store got the message and raised its prices, the brand name outlets did likewise and the normal differential of 1c or 2c a gallon below brand name normal retail price was resumed in the area in question.

Department stores selling gasoline off-brand appear to be a little less concerned about the attitude of the integrated companies than the ordinary off-branding who is engaged primarily in the sale of gasoline and the service station business. If a price war results because the integrated companies won't tolerate department store pricing practices, this may have compensating advertising advantages to the store. The ordinary off-branding is in business for the purpose of making a profit on his gasoline sales and cannot afford to lose money on gasoline for a prolonged period. A department store, on the other hand, continues to earn profits on the sale of other merchandise even if losing money on gasoline, and sometimes the advertising from a loss leader may produce greater profits from other merchandise.

Despite the problems with off-brandings, integrated companies continue to supply them with enough gasoline for approximately 10% of the market and to tolerate a price differential of up to 2c per gallon below their own outlets. The existence of some off-brand outlets, with gasoline at lower prices, is one deterrent to brand name dealers increasing their markups.

The price at which an off-branding can sell gasoline is determined by the price at which the off-branding can buy gasoline, and this is determined by the integrated oil companies with whose brand name stations the off-branding will compete.

Integrated oil companies with refineries accordingly exercise a measure of control over retail pump prices—

- (a) by controlling the volume of gasoline they supply to off-brandings; and
- (b) by controlling the price at which they sell to off-brandings, which, in turn, determines the price at which off-brandings can resell.

## **(2) Retail Competition From Employee Operated and Retail Commission Stations**

In a service station operated by the lessee of the station, or by an owner of the station, the lessee or owner purchases the gasoline from the oil company and the lessee or owner determines his retail markup.

However, where a station is operated by an employee of the oil company, or by a retail commission agent of the oil company, the oil company continues to own the gasoline and the oil company determines the retail markup on the gasoline which is dispensed by its employee or agent.

If the oil company considers that the retail markup of its brand name dealers, whether lessees or owners, is too high, the oil company may fix lower prices in stations it operates by employees or retail commission agents in the same community.

The existence of such lower prices would deter owner operators and lessee operators from further increases of their retail markup.

Many members of the public are not conscious of price differentials which usually are not advertised. Various lessee operators and owner operators have reported to the Committee that, when retail price increases were contemplated, oil companies' sales representatives had advised them that oil company operated outlets would not increase their prices and would post curb signs, advertising the lower price, which would be prominently displayed. An operator contemplating

an increase in his retail markup is not encouraged by the thought that the same brand of the same product may be advertised at lower prices elsewhere in his competitive area.

A differential of 1c per gallon will induce some motorists to move from a brand name station to another station selling the same brand, resulting in a loss of volume for the operator charging the higher price.

The use of retail commission dealers appears to be a more sophisticated and precise method of influencing retail price, than either off-branders, or the temporary introduction of commission consignment in "price war" circumstances.

Edmonton and Calgary account for 48 percent of gasoline sold through service stations in Alberta.

One major marketer converted six strategically located high gallonage lessee outlets in Calgary to retail commission dealer status. The operator, instead of being a lessee who buys gasoline for resale at a markup he determines, becomes an agent for the oil company for the sale at the service station, of the oil company's gasoline. In other words, title to the gasoline remains in the oil company and the oil company fixes the retail price. The same situation applies to other merchandise consigned to the service station and sold by the operator as the oil company's agent. In Calgary, these retail commission dealers were strategically located in six different sections of the city so that, no matter what section of the city a motorist happened to be in, one of such stations was readily available to him.

Similarly, in the city of Edmonton six high volume lessee stations were selected, each in a location which made it readily available to a large segment of the city.

In both cities, the 12 stations were successful lessee outlets that had been leased to above average lessee operators, several of whom had long records of successful operation for the company.

The minimum of one month's notice in writing was given, terminating these leases by an abrupt letter, one of which is quoted as follows:

"Dear Sir:  
We wish to advise that your present lease agreement with (name of oil company) will cease effective (date), and will be replaced with the new Retail Commission Dealer Agreement, commencing (one day later).  
Prior to commencement of the Retail Commission arrangement details of the plan will be discussed fully.

Yours very truly."

Each of these former lessees was given the limited choice of signing the retail commission dealer agreement or leaving his station and going out of business. Eleven signed retail commission dealer agreements. These dealers reported the company gave various reasons for changing them from lessee operators to commission consignment dealers. One important reason was, "to offer competition to off-branders", and another was, "to establish standards for brand-name service station operators".

The commission rates payable by the oil company to these agents are lower than the markups usually taken by lessees or by owner operators. The retail prices fixed for gasoline and for merchandise in these service stations is lower in almost every case than the prevailing price in the brand name outlets operated by lessees. At first, these agents were paid a commission of 5.6c per gallon of gasoline, which was later raised to 7c per gallon. During the same period, retail markups increased from 6½c per gallon to 8c per gallon, and subsequently as high as 9.1c per gallon.

The Committee periodically checked differentials in retail prices. The price of the retail commission dealer usually was between the higher price charged by brand name lessees and the lower price charged by the department stores and off-branders. For instance, the pricing of several outlets in Calgary was checked on one day and the following differentials were then in effect:

Brand name lessees generally .....	41.9c per gallon
Retail commission dealers .....	40.9c per gallon
Off-branders and one department store .....	38.9c per gallon
One department store .....	37.9c per gallon



The 4c differential on this date was a wider range than normal. However, the customary differential between retail commission dealers and lessee brand name dealers generally is 1c.

Within a particular station, the effect of the retail commission dealer agreement with its low commissions is to substantially decrease the dealer's profit.

Table 159 illustrates the profit earned by a particular station before consignment and after consignment, showing the results in three separate years. Operator 1 operated the station in its final year as a leased outlet and in the first year that it was on consignment. He left the business because of his loss of income and operator 2 operated the station during its second year on consignment.

Table 159.

**Profit Comparison Between Lessee Operation and Retail Commission Dealer Operation of One Service Station in Three Successive Twelve Month Periods**

	<b>Operator 1 Before Consignment</b>	<b>Operator 1 On Consignment</b>	<b>Operator 2 On Consignment</b>
Sales .....	\$156,876	\$148,218	\$162,834
Cost of Sales .....	118,329	118,210	130,427
Gross Profit .....	\$ 38,547	\$ 30,008	\$ 32,407
Expenses .....	26,988	25,262	29,262*
Net Profit .....	\$ 11,559	\$ 4,746	\$
Less Depreciation .....	1,977	884	
Profit .....	<u>\$ 9,582</u>	<u>\$ 3,862</u>	<u>\$ 3,145</u>

\*(including depreciation)

Source: Gasoline Marketing Enquiry Records.

All six of the former lessee operators in Calgary, who tried to operate under the retail commission dealer agreement, terminated in less than 2 years. In Edmonton, after three years, only two of the former lessees are still commission agents.

The Committee questioned brand name operators with service stations in the vicinity of a station operated by a retail commission dealer. There is no doubt that the existence of lower prices in the station of the retail commission dealer is a deterrent to other brand name dealers from raising the retail markups. They are conscious of the fact that, if they increase their retail prices, some of their customers may seek out the lower price available from the retail commission dealer, who sells brand name products.

The oil companies practice various means to reduce price differentials and generally do not advertise, or otherwise bring price differentials in gasoline to the attention of the public. Many members of the public, who might be influenced by these price differentials, are not aware of them.

In December of 1967, a tax increase of 4/10ths of a cent came into effect. This raised the question of whether retailers would pass the price increase on to their customers, or whether they would absorb it in their markup. Retail markups were relatively high in Calgary service stations and the Committee received reports from several operators that their oil companies were suggesting the service stations should absorb the increase. One operator reported an interview with his sales representative, who "suggested" that the retailer absorb the increase and hold his retail price at the existing level. The operator expressed a preference for passing on the increase to his customers, whereupon, the sales representative stated that, unless service stations absorbed the increase, the oil company would lower prices in its retail commission outlets and post curb price signs to draw the differential to the attention of the public.

Another operator also reported that his sales representative inquired as to his intentions regarding the retail price. He replied that he intended to raise his price from 42.5c per gallon to 42.9c per gallon, thereby passing the entire increase to his customers. The sales representative advised him that the company had been taking a survey of dealer intentions. He stated that, if service station operators generally, raised their price, then the oil company would post and advertise a retail price of 40.9c in its retail commission outlets, which was 2c below the price

proposed by the dealer. The sales representative stated that the company considered the Calgary retail markup was too high, being, at that time, close to the highest in Canada. He pointed out that, if the dealer absorbed the increase, it would reduce his markup from 9.9c to 9.5c, which was still above average.

Reports such as the foregoing confirm the impression that the oil company is using its power to fix retail prices in stations operated by its retail commission dealers for the purpose of influencing the retail pricing of its brand name lessee dealers.

It can obviously control the pricing of lessees and owners more directly, by controlling the pricing in retail commission outlets, than it can by indirectly controlling off-brand competition by means such as

- (a) controlling the volume sold to the off-branders;
- (b) controlling the price at which the off-branders purchases; and
- (c) forcing up the off-brand prices to tolerable differentials by means of temporary periods of commission consignment competition.

Also, the lessee has less ground for complaining about a competitive control on his price than he has when large numbers of lessees are placed unwillingly on commission consignment to meet an alleged threat of price competition, which he believes to be artificial or exaggerated. This usually provokes considerable protest from the lessee operators, who are placed on commission consignment against their will, and such protests receive sympathetic consideration from various authorities.

The retail commission dealer arrangement permits the oil company to control retail prices in enough outlets to exercise a sensitive and constant check on any move towards what the oil company regards as unnecessarily high markups by its lessee and owner dealers.

### **(3) Commission Consignment and Price Wars**

Generally, service station operators are "conditioned" to do practically everything their oil company "suggests". The average service station operator has a deep seated conviction that no matter how much he dislikes the oil company "suggestion", he had better accept it because the alternatives that could result from incurring oil company displeasure would be infinitely worse. Accordingly, if an oil company sales representative brings around a new document for the average operator to sign, in substitution for some existing document, the operator almost automatically signs it because he is afraid of the possible consequences of refusing to sign it.

In the normal relationship, a service station operator, whether owner or lessee, purchases gasoline from the oil company and resells it at a markup which the operator determines.

Under the arrangement of "commission consignment", the oil company retains ownership of the gasoline which it deposits in the operator's tanks, the oil company as owner of the gasoline determines the retail price, and the operator is paid a commission for his services in dispensing the oil company's gasoline.

If retail price competition develops, the integrated oil company wishes to have direct control over prices at retail outlets so that it can quickly respond to price changes by the competitor.

If a service station operator is asked to reduce his retail price 1c per gallon, he is reluctant and usually rather slow to do so because this may eliminate his entire profit. If the station is on commission consignment, the oil company can change retail prices at will and without delay.

For the average service station operator, once the retail price has been reduced by 1½c per gallon, he is no longer earning any profit on the sale of gasoline and further reductions in the retail price result in sales at a loss. In such circumstances, there is little incentive for him to continue to sell. Under commission consignment, however, the retailer receives a fixed commission of a minimum amount per gallon no matter how far the retail price drops during the price war. The prevailing commission rate in Alberta during 1963 and 1964 was 6½c per gallon, which barely covered the sales expenses of most operators, eliminated their opportunity for profit, and, in many cases, resulted in a loss.



The oil companies appear to experience no difficulty in placing their stations on commission consignment. The oil company simply seems to reach a decision about instituting commission consignment, company representatives hold meetings with small groups of their operators, the sales representatives call on some of the more reluctant operators, and in a matter of a few days an entire city or marketing area will have completely changed from the normal basis to commission consignment. Service station operators have objected and complained, but when the oil company directly requests them to sign, they do so rather than face the consequences of not cooperating.

Table 160 following, contains Imperial Oil's comments on its price action in the circumstances outlined in the table. The following are extracts from that table—

"1963 February ... consignment is introduced and within a month over 50% of majors' outlets are on this basis ...

1963 May ... Victoria prices spread north to Duncan so our stations there go on consignment ...

1964 January ... dealers drop in stages reaching a low of 39.9 ... about one week later, our dealers go on consignment."

Usually, the basis of the oil company approach to its operators is that, there is a price war in prospect (real or fancied), and commission consignment, although costly to the operator, would be less costly to him than if he continues to buy on the regular basis and the price drops so he is reselling at a loss.

In Alberta, which is remote from sources of cheap crude and where all the refineries in the province belong to "cartel" brand companies, it is difficult to comprehend how serious price competition for the brand name companies could develop from our small off-brand outlets. The price threat may be one apparent reason for commission consignment, but the oil company may have underlying and more important reasons.

One of our interviewers reported the following circumstances to us. He was informed that an integrated brand name oil company persuaded one of its dealers, in a strategic location, in a particular market area, to take his diesel fuel on commission consignment. Before consignment, this dealer had a markup of 6.5c per gallon, but, under consignment, his commission payable in respect of the consigned diesel was only 3c per gallon. The oil company, as owner of the diesel, could now set the price at which it could be sold at this outlet and was able to lower prices at this outlet up to 3½c per gallon, below the dealer's former resale price, before the oil company would begin to lose anything by lowering prices.

The oil company started lowering diesel prices at this outlet and the word soon spread to customers and to dealers in the market area. Having regard to the impending price war created by this situation, the brand name oil company came to the rescue of its other dealers and offered them commission consignment deals on the same basis. Operators reported that they were persuaded to sign commission consignment on the basis that this was their company's method of protecting them from a price war. Other oil companies in the marketing area immediately followed suit and there was a general lowering of diesel prices throughout the area. The oil company was still obtaining as much per gallon as it ever did, but, the amount being received by the operators had been drastically cut.

In the other cases the Committee studied, a tiny off-brand was alleged to have started cutting prices, precipitating the fears of a price war, which was the reason alleged by brand name oil company representatives for requesting their operators to go on commission consignment. Such an off-brand with one or two small third rate retail outlets, who receives his total supply from a brand name refinery, appears to be about as much of a threat to the major brand oil companies as a fly would be to a herd of elephants. However, fright from such a source is the reason given for large scale institution of commission consignment affecting hundreds of brand name service station operators.

In British Columbia, which is closer to the sea and to independent sources of cheap refined products across the border, price cutting by off-branders could be a more serious problem. However, it is dealt with in the same way by placing brand name stations on commission consignment.

Imperial Oil Limited, in its submission to the British Columbia Royal Commission, gave a history of gasoline price action involving the use of commission consignment in its own outlets, and the pattern of price setting that it followed to deter the price cutter and restore prices to the normal differentials. It gave comments drawn from its records relating to pricing in the Vancouver metropolitan area from 1958 to 1964, and in the Victoria, Nanaimo, Port Alberni area from 1962 to 1964. Imperial's comments about the Victoria - Nanaimo - Port Alberni price action are shown in Table 160 and illustrate the pricing practices used.

Table 160.

HISTORY OF GASOLINE PRICE ACTION  
VICTORIA-NANAIMO-PORT ALBERNI

Comments Drawn from Records

1962	January	The first private brand outlet in Victoria opens. Product is being purchased at Bellingham, Wash., and trucked to Victoria via Nanaimo. The price is 42.9 for regular versus general majors' prices of <b>44.9</b> (margin 8.6).
	February	A second private brand is installing pumps near Victoria.
	July	There are now two private brands in Victoria, one in Nanaimo, and a Woodward's in Port Alberni, all selling two cents below the majors.
1963	January	Now seven private brands on Vancouver Island. A Standard of B.C. outlet near Victoria is 4.5c below general major brand level and one Texaco outlet in Victoria lowers two cents to private brand levels.
	February	We begin lowering from 44.9 to meet competition of two Mohawk and two Pay "N" Save outlets. They react with further price cuts until they reach 37.9 with I.O.L. at <b>38.9</b> . Consignment is introduced and within a month over 50 percent of majors' outlets are on this basis.
	May	The 38.9 Victoria prices spread north to Duncan so our stations there go on consignment, lowering from 45.9 to <b>41.9</b> . Other majors follow and at May 31 all are on consignment at 41.9.  Our Victoria prices are raised two cents to 40.9. Some majors follow. Private brands increase one cent to 38.9. We drop back to 38.9.
1963	June	We raise Victoria one cent to 40.9 followed by Standard, B.A., and Texaco. The private brands move up one cent to 39.9.
	July 29	The federal sales tax increase brings Victoria prices to <b>41.3</b> for majors. The private branders remain at 39.9. We are forced back to 40.9 to remain competitive.
1963	August 13	We raise Victoria to <b>41.3</b> . Private brands at 39.9.
	August 21	We revert once again to <b>40.9</b> . Some majors hold at 41.3.  Nanaimo — We lower one station from 46.4 to 43.9 to meet a Pay "N" Save at 43.9.
	September	Nanaimo — Pay "N" Save lowers several times and we follow with half our stations on consignment. A low is reached of <b>33.9 I.O.L.</b> versus 32.9 Pay "N" Save. During the month we make several increases and by September 24 are at <b>40.9</b> versus Pay "N" Save at 39.9.
	October	In Victoria we lower one cent to 39.9. Woodward's opens at 38.9 and drop to 37.9, followed by Pay "N" Save and other private brands. By October 24 majors are at 38.9, having reduced one cent from 39.9.  At Duncan, October 18, I.O.L. reduces prices two cents to 39.9.  Port Alberni — We place three of our four stations on consignment, lowering one cent to <b>45.9</b> versus Woodward's 44.9. Consignment does not actually take effect until our price reaches 44.7. On December 3, Woodward's moves to 43.9.

<b>1963 November</b>	Port Alberni — Acting on their own, our stations reduce 1.0 to 44.9.
<b>December</b>	Port Alberni — Woodward's drops 1.0 to 43.9. Victoria — After moving to 38.9, Mohawk raise to 39.9. We move to 40.9. Port Alberni — We raise to 45.9, 46.9 and 47.9. Woodward's do not move. Victoria — Other majors move to 40.9. Private branders raise to 38.9. We move to 39.9.
<b>1964 January</b>	Port Alberni — Dealers drop in stages reaching a low of 39.9. Woodward's also lower, eventually to 39.9 as well. About one week later, our dealers go on consignment. We raise to 41.9, Woodward's holding at 39.9. Port Alberni — We lower to 40.9, 1.0 above Woodward's.
<b>February</b>	Woodward's raise 1.0 to 40.9. We move to 41.9. Royalite posting at 40.9, other majors 41.9.

Source: Imperial Oil Records.

This table clearly illustrates how commission consignment is used by the oil companies to regulate retail prices.

If an off-brander lowers his retail price more than approximately 2c per gallon below the prevailing brand name retail price, the integrated oil company may decide to take action to restore the smaller price differential.

If it does so, it puts its surrounding brand name retail outlets on commission consignment so that it can control the retail prices of these outlets. It then lowers its prices to approximately the same level as those of the off-brander so that the price differential which was attracting customers is eliminated. If the off-brander further reduces his price to restore the differential, the integrated company does likewise, matching every price cut with a corresponding one.

The integrated oil company will maintain its low pricing, so that the off-brander suffers the consequences of selling at a loss for a sufficiently long period that he realizes the serious effects this could have for him. The integrated company will then raise its prices, and if the off-brander follows suit by matching each price increase, this will continue until normal pricing is restored at the normal differential. If he fails to follow the price increases, and lags too far below the rising prices offered by the majors, they again lower their prices to his approximate level depriving him of any price advantage. These processes are repeated until the off-brander is so anxious for a price increase that he will raise his price every time the majors do so and he will not permit a price differential sufficient to provoke a price reduction by the majors.

From the foregoing it is clear that retail pump prices can be effectively controlled by the brand name oil companies by use of the commission consignment device. Usually, when commission consignment is in effect, the dealer gets a much smaller commission than he formerly charged by way of markup. When the oil company considers pricing has returned to normal and the dealers go off commission consignment, they can't revert to their former higher markups without increasing the price of gasoline to the public, which comes sharply to the attention of the motorist.

Furthermore, the off-brander or price cutter has just been disciplined into the acceptance of a price differential of 1c or 2c, tolerable to the brand name companies which instituted commission consignment to eliminate the larger differential. The brand name dealers are painfully aware that if they increase their pump prices this may again create the kind of differential that the oil company instituted commission consignment to eliminate. For a time at least, the dealers are prone to accept smaller markup rather than running the risk of having commission consignment instituted again.

When the price returns to normal after the price war, the dealer is conditioned to accepting a smaller markup and the oil company is in fact receiving a larger proportion of the price per gallon paid by the motorist.



The Supreme Court of the United States, in a judgment handed down on the 20th of April 1964, found that consignment selling of gasoline was illegal. An article relating to this judgment was published in "Super Service Station" in the issue of May 1964 which read in part as follows:

**"U.S. Supreme Court Holds Consignment Setup Was An Effort To Fix 'gas' Prices**

The U.S. Supreme Court struck down on April 20 the gasoline consignment plan of Union Oil Co. of California as illegal under the Sherman act.

A majority of five members of the court held that the plan was an effort to fix prices at thousands of retail service stations and that Union used coercion against dealers to bring them into line."

Mr. Justice Douglas, author of the majority opinion, was quoted as follows:

"When, however, a 'consignment' device is used to cover a vast gasoline distribution system, fixing prices through many retail outlets, the anti-trust laws prevent calling the 'consignment' an agency . . .

The present coercive device, if successful against challenge, under the antitrust laws, furnishes a wooden formula for administering prices on a vast scale . . .

To allow Union Oil to achieve price fixing on this vast distribution system through this 'consignment' device would be to make legality for antitrust purposes turn on clever draftmanship. We refuse to let a matter so vital to a competitive system rest on such easy manipulation . . .

We hold only that resale price maintenance through the present coercive type of 'consignment' agreement is illegal under the antitrust laws and that petitioner suffered actionable wrong and damage."

The article in "Super Service Station" went on to state:

"The petitioner is Richard S. Simpson, formerly a Union Oil consignment operator in Fresno, Calif., who cut his price to 27.9c when Union demanded 29.9c. 'Solely' for this pricing action, the high court said, Union Oil refused to renew Simpson's lease . . .

Rufus E. Wilson, chief of the division of trade restraints of the Federal Trade Commission, recalled that the FTC has struck down commission-consignment plans in cases involving Sun Oil Co. and Atlantic Refining Co., and that both are being appealed to the U.S. Court of Appeals . . .

The FTC crackdowns on consignment sales of gasoline are under section five of the FTC act, while the high court action in the Union case finds a violation of the Sherman act. This indicates a double barrier to consignment sales in the future, if the indicated decisions become final."

Professor Moore, Economic Advisor to the British Columbia Royal Commission on Gasoline Price Structure stated:

"In British Columbia, 1959-63, the major oil companies could not have confined and rendered ineffective the competitive pressure of the private brand stations in the way they did, if they had not been allowed to use consignment selling. It will be recalled that consignment selling was used by the price leader, the other major companies following, to demonstrate to the private brand stations that they would not be allowed to maintain a differential of more than 1c on standard grade gasoline between their pump price and that of the major brand stations. The pump prices of the major brand stations, (all of which had been put on consignment) were lowered to within 1c of the private brand pump price until the private brand dealers and jobbers received the message." . . . "if this . . . strategy confines private brand dealers to a small share of the market and prevents them from trying to maintain a differential of more than 1c or 2c, the strategy is not in the long term interests of the motorist."

"Both strategies (consignment and the conditional offer of a lower dealer tank wagon price) minimized the cost to the oil companies of bottling up price cutters to a small share of the market. In the absence of these strategies, the companies could only lower the dealer tank wagon price for sales to service stations throughout the entire area served by the refinery. With either strategy, the companies can confine the lower refinery net to sales in the areas affected by price cutters."

"I support the . . . recommendation of a ban on consignment selling . . . By a ban on consignment selling, I mean a ban upon the inducement of all of an oil company's dealers in a market to become agents of the company selling on consignment so that the oil company can set the pump price without contravening the law."

"The motorist should object to the consignment system because it was used to bring an end to price competition . . ."

"However, the possibility that the major oil companies might again resort to that strategy must surely inhibit private brand jobbers and dealers from being as aggressive as they were during 1959-63."



Commission consignment is used to combat real threats of price competition. However, commission consignment results in a reduction of dealer markups which continues after commission consignment has been terminated. In some cases, an insignificant or artificial price war may be the apparent reason for commission consignment, but a more important reason may be to reduce dealer markups which in the opinion of the oil company are getting too high.

Integrated oil companies use commission consignment to force up off-brand prices when they get too low, and to force down brand name retail markups when they get too high.

In any case, it is an effective tool by which integrated oil companies control retail prices.

#### **(4) Commercial Credit Cards**

One company operating in Alberta uses a system of commercial credit cards, which its service station operators dislike very much.

The oil company enters into a direct written contract with the customer who uses gasoline. Generally, such a customer is a small commercial concern using one or more vehicles for its business purposes. The customer agrees to purchase from the company, the customer's requirements of gasoline expressed in the contract as a minimum gallonage per calendar year. The customer's vehicles pick up their requirements at any brand name retail outlet of the company. The company supplies the customer with one or more "commercial credit cards" and price maps. The map shows price zones and there is a "commercial posted pick-up price" for each zone. The company reserves the right to change its "commercial posted pick-up prices" by giving notice to the customer before the date of any change. The customer's contract shows his particular discount from the "commercial posted pick-up price" in the zone of pick-up. In the cases of two customers who we examined, their discounts enabled them to buy at 4c per gallon below the prevailing retail price. One lessee reported to us that he absorbed 3.6c per gallon, and the oil company absorbed 0.4c per gallon of the total discount of 4c.

The company enters into a service agreement with its dealers relating to these commercial credit cards. Under this agreement the dealer agrees to supply gasoline to credit card holders without charge by the dealer to the holder. The dealer obtains signed receipts for the gasoline and the company reimburses the dealer at his cost for the gasoline supplied. The company agrees to pay the dealer a payment of a designated amount per gallon for his services in supplying the holders of commercial credit cards.

In the case of two different dealers, each was being paid 5.5¢ per gallon for the sales. The dealer does not see the price maps of the commercial credit card holder and has no knowledge of what price they pay, which may vary from customer to customer.

Another clause of the contract with the dealer provides that if the rent for his service station is based on gallonage sold, then the gallonage supplied by the dealer to commercial credit card holders is included for the purpose of computing the dealer's rental.

The motorist drives up to a gasoline pump and the pump attendant fills his tank with gasoline. It is not until payment is requested that the pump attendant discovers the motorist is the holder of a commercial credit card, issued directly to the motorist by the brand name oil company. So far as the operator is concerned, he incurs all of the same expenses of dispensing gasoline to the holder of such a card, as he incurs for any other purchaser. However, in the case of an ordinary motorist, he collects his full mark-up of 8.1c per gallon, whereas, in the case of the holder of a commercial credit card, the oil company reimburses him for servicing such a customer by paying him 5½c per gallon.

In the Committee's studies of service station profits from the sale of gasoline, Charts 46 and 48 in Chapter 22 indicate that the operator's profit per gallon is usually less than 1½c, and the remainder of his 8.1c markup represents actual

expenses for labor and overhead. Accordingly, by serving the holder of a commercial credit card, instead of making the profit of 1½c per gallon, he incurs a loss of approximately 1.1c per gallon.

Such cards were being presented at some stations at the rate of 3 or 4 per day. In these sales, the retail price was 4c per gallon less, the operator's markup was 2.6c per gallon less, and the oil company had effectively reduced both the pump price and the operator's markup by a contract to which the operator was not a party.

Each price zone shown on the maps accompanying the commercial credit card service agreements covered a large area within which the Committee was aware of substantial differences in operators' costs and differences in retail markups and retail prices. The commercial customer who holds a commercial credit card, however, appears to have a fixed discount from a fixed price no matter what station he may call at within the zone to pick up his gasoline. To the dealer, the result of the commercial credit card service agreement is to deprive him of his right to determine his markup on gasoline he has purchased for resale.

### **(5) Reduction of Operator's Mark-up by Advertising Expense**

The major oil companies frequently engage in national advertising programs which take a variety of forms. In many cases such a campaign provides that the motorist will receive from the service station operator a premium, gift, coupon, chance for a prize, or the right to buy merchandise at a low cost.

The national advertising campaign tells the motorist that the premium or merchandise will be given with every purchase of the brand name gasoline.

There is, accordingly, strong compulsion on the service station operator, to have available the particular premium or merchandise as advertised, because failure to have it might alienate his customers.

In many cases, the oil company sells the premium or the merchandise to the operator, thereby recovering part of its cost in connection with the promotion of its products. The compulsion upon the service station operator to buy the premium or merchandise that is created by the advertising program is strengthened by the oil company's expectation that every operator will participate. Like many other oil company "suggestions" to the operator, he is fearful of the consequences that could arise from his refusal to participate.

Participation in the program adds to the operator's costs per gallon in the sale of gasoline and it is practically impossible for the operator to raise his retail price to cover these additional costs for the duration of the program.

As an illustration, one oil company advertises that each motorist who purchases \$3.50 worth of gasoline will be entitled to buy a drinking glass from the service station operator for the price of 10c. The Committee inquired from an operator selling this brand of gasoline, whether he had to purchase such glasses or whether the oil company supplied them to him free. He produced an invoice from the oil company for three dozen glasses which he had been required to purchase and the invoiced price was \$6.33 or 17.6c per glass. The advertising states the operator will sell one glass for 10c with each purchase of \$3.50 worth of gasoline. The operator sells each glass at a loss of 7.6c with each purchase of approximately 7.6 gallons of gasoline. This in effect adds 1c per gallon to his cost of selling gasoline or reduces his margin by 1c per gallon.

In a large number of service stations, the operator's net profit per gallon of gasoline sold is 1c per gallon or less. Chapter 22 gives details of several models illustrating service station costs and revenues, and Chart 48 shows an operator's profit of only 1½c per gallon in a station with sales of 200,000 gallons per year, which is above average.

The oil company, by instituting a program advertising its own products in which the service station operator, for all practical purposes is required to participate, may be eliminating the entire profit from the sale of gasoline for some service station operators and is certainly materially reducing the profits of all operators. The effect of such a program is to take 1c per gallon out of the service station operator's pocket and pay it to the oil company on account of the oil company's advertising program.



## **(6) Conditional Reduction of Dealer Tank Wagon Price**

The Committee was advised that in another province, an oil company offered its dealers a 1c reduction in the dealer tank wagon price on the condition that they reduce their margin or markup by 1c, resulting in a 2c per gallon reduction in the pump price.

A dealer who did not accept, would know that dealers who did accept, would be paying the oil company 1c less per gallon and would be charging the motorists 2c less per gallon than he was. The uncooperative dealer would lose gallonage because his price to the motorist was 2c per gallon more, and he would be paying 1c more per gallon for his gasoline than his competitors who cooperated by accepting the oil company's conditional offer.

Another illustration of this pricing practice was reported by the Ontario Retail Gasoline & Automotive Service Association in a circular dated April 19th, 1968, from which the following excerpts were taken:

"British American Oil Co. and Shell Canada Ltd. moved quickly to defend themselves against Imperial Oil's one cent price drop in Toronto, Hamilton and London. B/A, Shell and BP dealers have been selling gasoline at one cent above Esso for the past ten weeks but they cannot give the market leader a 2 cent advantage and still hold their gallonage.

On April 10th, B/A dealers were offered an 8/10th cent subsidy conditional on them dropping 2 cents (from 49.9c to 47.9c) to meet Esso prices. Some dealers accepted the subsidy which reduced their margin by 1.2c, from 9.5c to 8.3c.

Shell dealers met with their Oil Company officials on April 15th. Shell offered a 4/10th cent subsidy conditional on their dealers dropping one cent, thus reducing the margin from 9.5c to 8.9c. The suggested retail price was 48.9c in Toronto (still one cent above Esso) with no price signs.

In Hamilton, the Shell offer is the same as B/A with 8/10c subsidy on a 2c price drop. Very few Hamilton dealers are taking the subsidies either at Shell or B/A stations."

The Committee has not had any reports indicating that this method of influencing the pump prices of its dealers has been used in Alberta. However, it is another method that supplying oil companies may use to effectively control retail pump prices.

## **(7) Pricing of Other Merchandise**

The theory is that a service station operator is an "independent business man" who buys merchandise, fixes his own markup, and resells at a price he determines which will produce a profit for him.

The major oil companies advertise nationally, in newspapers, magazines, on radio and on T.V.

If a brand name oil company advertises directly to customers of a brand name service station, that stations of that brand will sell a particular product or service at a designated price, the oil company is for all practical purposes, fixing the price the service station operator can charge.

As an illustration, an advertising folder mailed directly to customers with their credit card billings quoted a sale price on tires which had been nationally advertised. The sale price advertised for this particular type of snow tires was \$36.95 per pair, which amounts to \$18.48 per tire. We checked with a brand name service station operator handling those tires and his cost price was such that the advertised price gave him a gross markup of \$1.15 per tire. Out of this he had to pay the labor cost of removing the old tires and mounting the new tires, and the cost of overhead, such as, use of the service bay, hoist, tools, etc. At the advertised price, the service station operator considered he was losing money on every pair of snow tires sold.

In our consideration of the profit service station operators make from the handling of tires, batteries and accessories, Table 37 indicates the narrow profit margin to an operator on tires sold at a higher price. The Committee considers that the tire price advertised by the oil company in this particular case, would cause many operators to incur a loss by selling those tires at that price.

In another case, an oil company printed and distributed to its brand name service stations, a curb sign or placard which they were urged to post, advertising that snow tires would be studded at a price of \$5.00 per tire. We checked the costs of studding a tire in an outlet of that brand.

The service station operator had purchased studs from the oil company at 4.3c per stud, and about 90 studs are required per tire. The cost of the studs to the service station operator was accordingly \$3.87 per tire.

At the current labor rate being paid by the operator to the employee who performed the labor, the average labor cost per tire was \$1.25. Accordingly, the combined cost of materials and labor to the operator to stud a tire was \$5.12 without allowing anything for overhead costs which must also be borne by the operator. The employee used a tool or gun for inserting the studs which cost the operator \$125.00. The employee requires shop space, power, light and other items of overhead. It appeared to us that allowing for overhead, the operator's actual costs for studding a tire were closer to \$6.00 than to the \$5.00 figure in the oil company advertising. Prior to the advertising, the operator had been charging \$9.00 per tire for studding, which is not an abnormal markup on goods and services costing him \$6.00, as compared with other services involving shop labor.

If service station operators are going to remain in business, they have to make a profit on some items that they merchandise. The oil industry influence on retail prices is steadily encroaching and there is a limit to the number of items of goods and services that the operator can provide "free", or at a loss, for the purpose of promoting sales of the oil company's gasoline. The extremely high degree of lessee turnover described in Chapter 24 is clear evidence that a shocking number of service station operators can see no economic future in the business under the present circumstances.



## **CHAPTER 35. POINT PRICING AND F.O.B. REFINERY PRICING**

### **(1) Difficulties of Price Comparison**

There are four aspects of the pricing of gasoline which make price comparisons more difficult, namely—

- (a) differences in volumes and conditions of sale;
- (b) numerous pricing points or zones with different prices in each;
- (c) the price is composed of several items not allocated or broken down;
- (d) varying discounts are granted from different posted prices to varying classes of customers.

In considering whether price discrimination exists, prices in different sales are difficult to compare due to unusual variables such as different volumes and different conditions of sale. For instance, in bulk gasoline sales to two different road contractors, a condition of the price to one, is that he owns and provides his own bulk storage, and a condition of the price to the other, is that the oil company will supply both gasoline and temporary bulk storage for the contractor's use.

Such price comparisons are made enormously more difficult when sales take place at different pricing points with different posted prices containing different dollar amounts of transportation. In the prairie region of which Alberta is a part, there were over nine hundred different pricing points, each of which had its own posted prices.

Price comparison problems are further compounded because each posted price covers several items, and there is no breakdown showing the amount payable for each item. Where an oil company posts a lower price in one place than in another similar place, this permits it to claim that it hasn't varied the product portion of the price, but has simply failed to recover some other item normally included in the total price, such as its actual cost of transportation or cost of handling.

In any case, where the total price paid by the buyer to the seller is composed of several items such as:

- (a) price of product;
- (b) cost of transportation; and
- (c) cost of handling;

and the invoice is for a lump sum not broken down between the several items, there is more opportunity for discrimination in price without as much appearance of discrimination in price. The discrimination in price is more difficult to discern and to prove.

At a particular place where the oil company wishes to lower its price, thereby discriminating against other similar areas where a similar price reduction does not take place, if it claims failure to recover part or all of its cost of transportation, or part or all of its cost of handling, the total price to the buyer has been effectively lowered, although the company can still claim, despite the lower total price, that its "price of product" remains constant.

The oil company can state that the amount it received for "price of product" is the same in each of two locations, although in one location it has received payment in full for all three items of its total price, and in the other, it has not been paid for part or all of two of the items of cost necessarily incurred in selling the product and which are normally part of the total price.

To obtain a common basis for comparison we attempted to determine, for each sale of gasoline, what price the integrated company realized for that gasoline at its refinery supply point. The price realized at the refinery supply point would be the price actually paid by the customer, whether discounted or not, reduced by actual costs of transportation and handling from the time of leaving the refinery supply point.

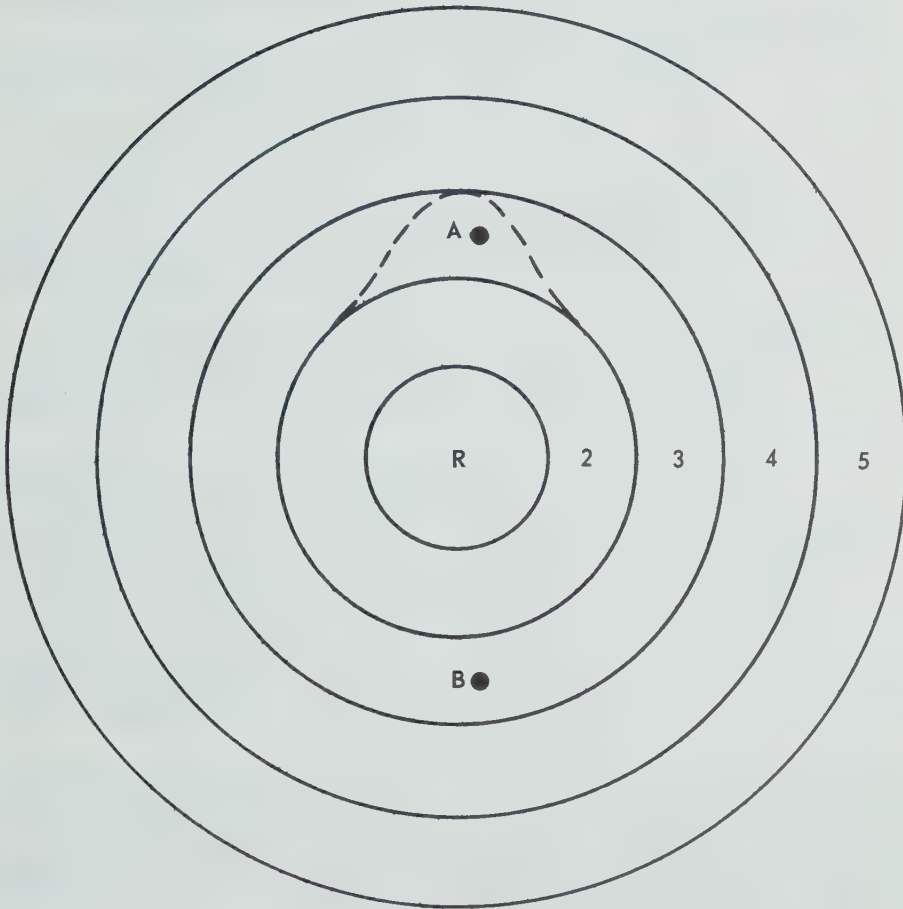
### **(2) Point Pricing and Zone Pricing**

In Alberta, Marketing Division pricing is based on a system of point pricing or zone pricing.

The system of point pricing or zone pricing provides opportunities for discriminatory pricing practices. It enables an oil company with a large marketing

## POINT PRICING AND ZONE PRICING

THE OPPORTUNITY FOR DISCRIMINATION BETWEEN SERVICE STATIONS AT ONE PRICING POINT COMPARED WITH SERVICE STATIONS AT ANOTHER PRICING POINT.



R - REFINERY SUPPLY POINT  
2,3,4 - PRICE ZONES  
A,B - PRICING POINTS

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

area to compete unfairly in a limited portion of that area, by lowering prices against a particular competitor, while generally maintaining its higher price throughout most of its marketing area.

The principles of applying this discriminatory pricing can be used in the same way against any kind of competitor, whether retailer, wholesaler, or refiner.

At each pricing point or in each price zone, the posted prices for the point or zone usually exceed the prices posted at the refinery supply point, by—

- (a) the cost of transportation to the pricing point or pricing zone (the transportation differential); and
- (b) the cost of handling (the handling differential).

In Chart 98, if points A and B have the same transportation costs and handling costs—

- (a) under a point pricing system both points would have the same posted price;
- (b) under a zone pricing system both points would be in the same price zone; and in such instances, no price discrimination exists.

However, if in point A there is an aggressive competitor, such as an off-brand or a cooperative who is attracting more volume by a lower retail price at that point, the integrated company which owns the refinery at R,

- (a) may lower its posted price, at point A only, if operating under a point price system; or
- (b) may change a small part of its price zone boundaries, to include point A only in a lower price zone.

If the costs of supplying the retailers in Points A and B are identical, but the price in Point B exceeds the posted price in Point A, then the retailers in Point B are being unfairly dealt with.

In the opinion of the Committee, such pricing practices are discriminatory. The company does not lower its posted prices generally for all its customers, it simply lowers them at point A for a small percentage of its customers, while maintaining regular price levels for a large percentage of its customers throughout the majority of its market area.

Such a pricing practice doesn't hurt the integrated company which owns the refinery very much, because the lower price applies to only a small fraction of its volume. The small cooperative or off-brand, on the other hand, may be hurt very seriously by such a pricing practice, because the limited area in which its entire volume of sales takes place may all be affected by the discriminatory lower price.

The integrated company which owns the refinery denies that this is price discrimination. In the jargon of the industry, the company claims that in special competitive situations, it posts a price for a point which isn't adequate to enable the company to recover its entire cost of transportation and handling to that point. In other words, they claim the gasoline portion of the price is unchanged, but they absorbed a loss on transportation and handling.

In the view of the Committee, as the cost of transportation and handling is actually incurred and paid for by the oil company, the lowering of the posted price for a point really reduces the amount realized by the company from the sale of gasoline at that point. After transportation and handling have been paid for by the company, it obtains less for gasoline sold at point A than for gasoline sold at point B where its costs are identical.

### **(3) Pricing F.O.B. the Refinery Supply Point**

A system of F.O.B. Refinery Pricing would appear to eliminate a large measure of opportunity for discrimination in price.

It would be possible and practical for the marketing division to post one price for gasoline F.O.B. the refinery supply point instead of posting numerous point prices or zone prices throughout the refinery supply area. Every invoice for gasoline supplied from that refinery — no matter where the customer was located, could show the gasoline price F.O.B. the refinery supply point.

If the purchaser was taking delivery at the place where the refinery is located, there would be no additions for transportation and handling, but if the purchaser was taking delivery at a place remote from the refinery, his invoice would show



the F.O.B. Refinery Price plus designated additional amounts for transportation and handling, etc. If discounts were granted, they would show as a discount from the posted price of the product.

If every invoice showed the "F.O.B. Refinery Price" for product, irrespective of whether there were additions to the total price for additional transportation or additional handling, or whether there were discounts, then comparisons of price would be much more obvious and it would be easier to discern price discrimination. Any reduction in such a posted price would benefit equally all customers supplied from that refinery.

A small marketer could not be exposed to discriminatory price competition, because under such a system, the price could not be lowered in his market area alone, because a reduction in the posted price F.O.B. the refinery supply point automatically and equally reduces the price to all customers in all areas supplied from that refinery.

In the opinion of the Committee, the system of point pricing or zone pricing now used by the oil companies provides much greater opportunities for discrimination in price than a system based on a single posted price F.O.B. the refinery supply point.

#### **(4) F.O.B. Pricing and New Refiners**

In the same manner that the point system of pricing or the zone system of pricing enables an integrated company to lower prices in one point to compete unfairly with a small group of retailers or with a small wholesaler, so also, it permits discriminatory pricing to make things more difficult for a prospective new entrant into the business of refining.

Generally speaking, the highest prices exist at points which are furthest from an existing refinery and have the highest transportation cost added.

Accordingly, a new entrant into refining would likely build at a point with a reasonably large population which is remote from existing refineries.

In chart 99, the locations of two existing refineries are each indicated by an R, and the concentric circles surrounding each, illustrate the areas supplied by the respective refineries and the rising prices as distances increase.

Theoretically, a new refinery would be in the best competitive location if it was established half way between the existing two. The broken concentric lines indicate the area in which a new refiner could expect his costs of transportation to be the same or lower than his competitors. Within this area he should be able to compete equally or have some transportation advantage.

However, under a system of point pricing or zone pricing, the existing refiners could lower their prices in points or portions of zones to eliminate the new refiner's transportation advantage at those points or within those portions of zones.

Such a pricing practice wouldn't hurt either of the existing refineries very greatly, because the lower prices would apply to only a small fraction of each refinery's volume.

The new refinery, on the other hand, could be deprived of all of its advantages of location and have to meet lower prices throughout its entire market area than existed before its decision to establish. Such an unfair pricing practice could impair its chance of becoming successfully established.

Professor A. M. Moore, Department of Economics U.B.C. stated:

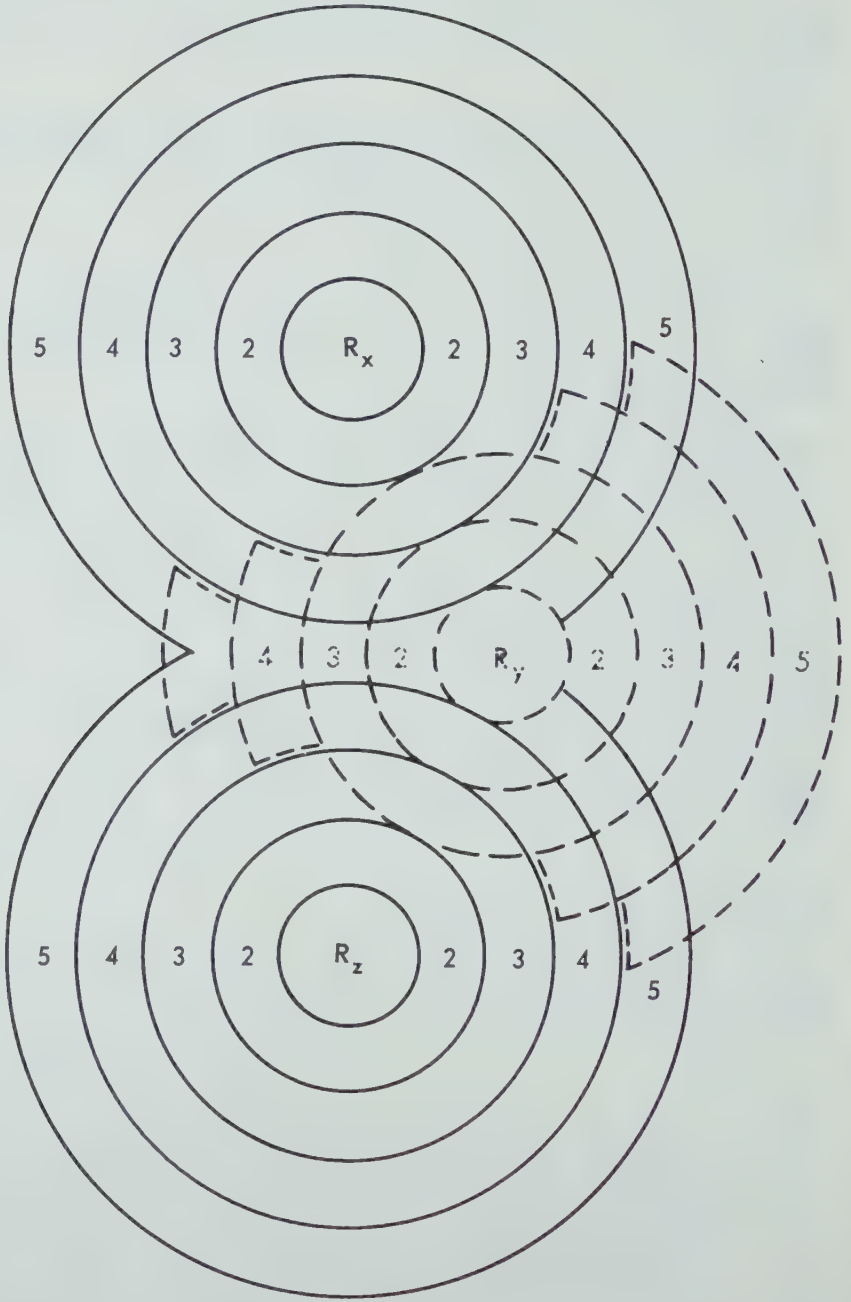
##### **"Effects of Compulsory F.O.B. Pricing**

- (a) Basing point pricing enabled the established companies (following the price leader) to impose losses on new entrants who built refineries in the Interior (Kamloops and Taylor Flats). Presumably the objective of the manoeuvre was to discourage imitators. This is undesirable from the public's point of view because penalty tactics impose barriers to new entrants into an industry.
- (b) Penalty tactics have some effect upon the location of refineries; they can prevent additional capacity from being built in the least-cost location.
- (c) When there is mandatory f.o.b. pricing and uniform refinery-gate prices to given classes of customers, the only way a refinery can push into the territory tributary to another refinery is by lowering the refinery gate price. Thus, f.o.b. pricing increases the possibilities that oil companies might engage in some price competition in the setting of dealer tank wagon prices."



# POINT PRICING AND ZONE PRICING

THE OPPORTUNITY FOR PRICE DISCRIMINATION AGAINST A REFINER BY LOWER PRICES IN ONE SEGMENT OF A REFINERY SUPPLY AREA.



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

However, if the marketing divisions of existing refiners were required to post a single set of prices F.O.B. their refinery supply point, then a reduction in the posted prices at that point would apply equally throughout the entire area supplied by that refinery, and could not be reduced in a segment of the market area to discriminate against one competitor by lowering prices at some supply points or within small parts of a price zone.

A new entrant into the business of refining who located his refinery at a point distant from existing refineries, would have the assurance that existing refiners couldn't compete unfairly by lowering their spot or zone prices in the immediate vicinity of his new refinery. If each refinery used F.O.B. Refinery Prices the new entrant into the business of refining would know that other refiners would have to lower their prices to all of their customers generally if they wished to lower their prices in his particular area and they couldn't compete unfairly by simply lowering prices in a limited area adjacent to the new refinery.

Imperial Oil, in its submission to the British Columbia Royal Commission, describes how it lowered its posted prices in the immediate vicinity of two new refineries shortly after those refineries were built.

"For example, Kamloops, Kelowna and Salmon Arm illustrate the impact a new source of supply (the Kamloops refinery) can have. In this case, when the refinery was first established, Imperial's judgment was that because of higher operating costs, Royalite would not reduce posted prices in the area and that, as a Vancouver refiner, Imperial would be able to continue to recover its transportation costs. The competitive impact of the refinery and Royalite's marketing practices were continually examined and at the time British Columbia crude became available Imperial anticipated that the lower crude cost would increase the competitive pressures already apparent. In the areas immediately adjacent to the Kamloops refinery Imperial's market share was lower than in other markets more distant from that supply source. Additionally Imperial was feeling the effects of competitive discounts in consumer business in the area. Accordingly Imperial reduced its posted prices (in the vicinity of the Kamloops Refinery).

Similarly the impact of the Taylor refinery led to price reductions at such points as Fort St. John, Prince George and Dawson Creek. Since 1957 dealer posted prices at these points have fallen substantially . . .

Now look at Quesnel and Kamloops. If compared to the past relationship of Vancouver posted price plus freight from Vancouver, the posted price to a dealer in Quesnel would be 27.3 cents per gallon. It is, however, only 26.0 or 1.3 cents per gallon below that. The reason for this is that there have been competitive pressures at Quesnel from gasoline refined at and shipped from Taylor Flats near Dawson Creek."

"Similarly, the gasoline Imperial sells in Kamloops must compete with gasoline refined at Kamloops. As a result, Imperial has had to absorb a differential of 2.0 cents per gallon against its earlier price relationships."

If the marketing divisions of integrated companies were required to replace their systems of point pricing or zone pricing by a single marketing division set of prices F.O.B. their refinery supply point, the opportunity for new refineries to get established would be improved, and the risk of discriminatory pricing would be reduced.

Professor A. Milton Moore of the Department of Economics, University of British Columbia, who was Economic Advisor to the Royal Commission on Gasoline Price Structure in British Columbia, took the view that point pricing denied local refineries their locational advantages and constituted a barrier to new entrants into the refining business. He argued that compulsory F.O.B. pricing would encourage refineries to locate in the most economic location. He considered that F.O.B. pricing would increase the probability of some price competition between refiners. He was of the opinion that F.O.B. pricing would not create local monopolies because of the established common practice by which integrated companies exchange or buy gasoline from one another. In accordance with this practice, a new refiner with a locational advantage would exchange or sell gasoline with other integrated companies who required refined products in the area where the new refinery is located, which would help to provide a market for its products.

Dr. Ronald A. Shearer, an Assistant Professor in the Department of Economics at the University of British Columbia, took the same view as Professor Moore. He advocated pricing on an F.O.B. refinery basis, with gasoline available to all marketers at these F.O.B. prices. He considered that a pattern of purchases from the closest refinery would tend to guarantee that regional price differentials to service stations would reflect minimum cost differentials.

Judge Morrow, in British Columbia, while apparently agreeing with the arguments of Professors Moore and Shearer, wanted additional justification before recommending imposition by government regulation of a system of F.O.B. pricing.

Our Committee is of the opinion that if a government enactment required marketing divisions to post and use prices F.O.B. their refinery supply points, the oil companies would respect and observe the requirement, and no government administrative or enforcement staff would be required.

#### **(5) Conclusions re Pricing F.O.B. the Refinery Supply Point**

Our Committee is of the opinion that a pricing system based on posted prices F.O.B. the refinery supply point would be very much fairer than the present system with hundreds of pricing points or numerous pricing zones.

Point pricing or zone pricing makes it possible for an integrated company engaged in refining and marketing to maintain prices at a high level throughout the majority of its pricing area, while at the same time lowering its price in a small area to compete unfairly with

- (a) a retailer or group of retailers in that area;
- (b) an off-brand wholesaler or cooperative whose operations are concentrated in that area;
- (c) a new refiner with a locational advantage in that area.

In pricing at the marketing division level, three posted tank wagon prices are used, namely—

- (a) dealer posted tank wagon price,
- (b) commercial consumer tank wagon price,
- (c) other consumer tank wagon price.

Under the present system for each pricing point or zone, the three tank wagon prices are posted. Every time such a set of prices is posted for a pricing point, or every time a zone boundary is varied, the possibility of price discrimination exists.

In the case of an F.O.B. pricing system, the three tank wagon prices would be posted F.O.B. the refinery supply point only.

All purchases in the area supplied from that refinery supply point would be expressed in terms of the single set of posted prices, and the additions for transportation and handling would be stated separately. The gasoline prices posted F.O.B. the refinery supply point could be discounted in the same manner as the prices posted at a pricing point are discounted. We considered that the granting of discounts to commercial, industrial, government and other accounts should continue, the only difference being that the discount would be granted from an F.O.B. refinery supply point price, rather than from one of numerous point prices or zone prices.

#### **(6) Marketing Division Sales, and Refining Division Sales**

In considering F.O.B. pricing, it should be borne in mind that there are two different levels of sales of the refined products produced by a refinery and two different levels of prices—

- (a) refinery sales made by the refining division to direct customers of that division; and
- (b) marketing division sales to customers of the marketing division of refined products produced by the refining division.

The three posted tank wagon prices are marketing division prices to marketing division customers which would be priced "F.O.B. the refinery supply point".

The refining division itself, through its refinery sales staff, deals directly with such customers as the marketing division of its own company, the marketing divisions of other integrated oil companies, off-brand wholesalers, and some very



large industrial or commercial consumers. Such refining division transactions may include product transfers to its own marketing division, product exchanges with other refiners, and actual sales to wholesalers and to large industries. These sales are usually at negotiated prices rather than posted prices and they, too, may be priced "F.O.B. the refinery supply point".

When it is recommended that marketing division sales be based on posted prices "F.O.B. the refinery supply point", this of course does not mean that refining division sales have to be made at prices posted by the marketing division for its sales.

From a physical standpoint, both types of sales may be delivered at the same place from the same tankage.

Usually, just outside the refinery fence, there is a tank truck loading rack which is operated by the marketing division as a marketing division bulk plant. This particular bulk plant has no gasoline storage of its own, but the truck loading rack is connected by pipelines running under the fence to refinery storage tanks.

Let us consider five successive tank trucks which are loaded at the same rack with gasoline from the same tankage—

- (a) the gasoline which goes into the first truck represents a product transfer from the refining division to the marketing division, which in turn sold it to a brand name service station dealer at its posted dealer tank wagon price, and the product is loaded into the truck for delivery to the service station;
- (b) the gasoline going into the second truck also represents a product transfer from the refining division to the marketing division, which has in turn sold it to a commercial customer at a discount from the posted commercial consumer tank wagon price, and it is loaded into the truck for delivery to the commercial consumer;
- (c) the gasoline loaded into the third truck represents a product exchange with another integrated oil company, the marketing division of which has in turn sold it to one of its brand name dealers at the posted dealer tank wagon price, and it is loaded into the truck for delivery to the brand name service station of the other oil company;
- (d) the gasoline which goes into the fourth truck represents a direct sale from the refining division to an off-brand wholesaler, at a negotiated price expressed as a discount below dealer posted tank wagon prices, and the wholesaler has in turn sold it to one of its off-brand dealers, and it is loaded into the truck for delivery to the off-brand service station;
- (e) the gasoline loaded into the fifth truck represents a direct sale from the refining division, at a negotiated or tendered price expressed as a discount below commercial consumer tank wagon prices, to a very large industrial consumer, and the gasoline is loaded into the truck for direct delivery to that industrial consumer.

Let us assume that each of the five tank trucks has the same physical capacity and has the same distance to travel to the point of delivery.

The five purchasers do not pay the same prices for their gasoline even though it came from the same tank and incurred the same delivery cost.

The two brand name service stations of company A and of company B will pay by far the highest price because each pays the posted dealer tank wagon price.

The off-brand service station purchasing from the off-brand wholesaler will buy at a small discount below the posted dealer tank wagon price.

The commercial customer who bought from the marketing division of the integrated company, bought at a discount below the posted commercial consumer tank wagon price, and his price per gallon is probably considerably less than that paid by either of the brand name service stations or by the off-brand service station.

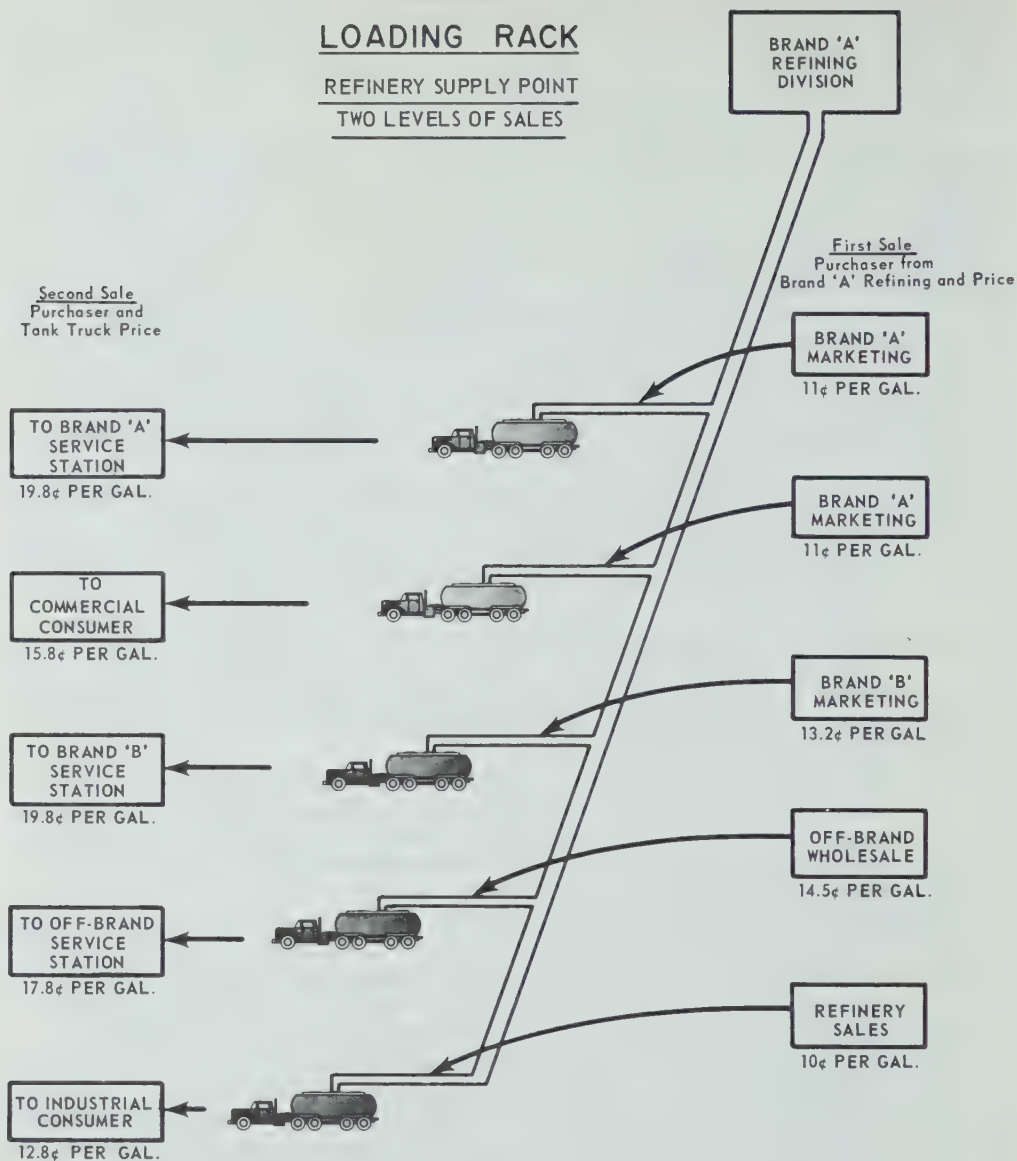
The large industrial consumer who bought directly from the refining division as a refinery sale, at a negotiated price pays less per gallon than any of the other four.



**LOADING RACK**

REFINERY SUPPLY POINT

TWO LEVELS OF SALES



The first Sale from the refining Division to its Purchaser takes place at a meter in the pipe between the refinery and the loading Rack.

The second sale takes place when the tank truck is loaded or unloaded.

Professor Moore of B.C. in his brief to the British Columbia Royal Commission stated:

"Our conclusion is that the largest discounts won by the commercial accounts are attributable to their bargaining power . . . rather than the lower costs of serving them . . . Some classes of customers do obtain gasoline at more favorable prices than do others".

Our Committee agrees with Professor Moore. The ties which bind each service station exclusively to one oil company completely deprive it of any bargaining power and service stations pay higher prices than those charged to many other purchasers of gasoline who are not tied to the same extent.

## CHAPTER 36. PRICE COMPETITION

### (1) Controlled Price Competition For Retail Dealers

In general, major integrated oil companies adopt a uniform price and do not enter into price competition with one another at any divisional level.

They produce their own crude and transfer it from division to division internally within their own company or family of companies. As there is no change of ownership, there is no internal need to fix or state a price when it moves from division to division.

Each integrated company has a chain of "tied" retail outlets which must purchase from it exclusively, and which can't purchase from any other company.

Accordingly, there is no price competition at the point where the integrated company finally sells to its tied retail outlets.

Although the oil companies exert every effort to avoid price competition between themselves, wherever possible, they appear to consider a little of it desirable for their retailers.

They follow some practices which makes price competition possible at the retail level, and other practices which encourage, or create competition, with their tied retail outlets.

There is a semblance of price competition at the marketing division level, or wholesale level, because of the existence of off-brand wholesalers. However, as the off-branders are wholly dependent on the integrated companies, their competition, both for supply, and for a competitive price, this competition is controlled and severely limited.

At retail, the off-brand retailer provides apparently "independent" competition for brand name retail dealers. The brand name retail dealer considers price competition is unfair if his retail competitor is able to buy at lower prices. If the brand name company wants to provide retail price competition for its brand name outlets operated by lessees or owners, to keep down their retail markups, there are three apparent possibilities:

- (a) to supply brand name gasoline to company owned stations, operated by employees or commission agents, at a lower price than the price to lessees and owners;
- (b) to supply brand name gasoline to company owned stations, operated by employees or commission agents, at the same price, but to operate at lower cost by economies of scale, or by paying commissions less than the retail markup;
- (c) to supply unbranded gasoline to off-brand wholesalers at a price which enables their outlets to compete in retail price.

In the first two cases, brand name gasoline is sold at two prices, and the anger of the brand name lessees and owners about unfair competition is directed primarily against their own company. In the third case, only unbranded gasoline is sold at the cheaper price, but the fact that the off-brand gasoline comes from the refinery of the brand name company is only thinly disguised, so the oil company is still blamed in part by the brand name lessees and owners for this type of price competition.

Several other methods by which the oil industry influences the pricing of its retail dealers were enumerated and discussed in Chapter 34. The operator who is trying to earn a living by running a business at a profit resents each form of interference by the oil company because they either add to his expense or make it more difficult for him to earn a profit.

## **(2) Price Competition Attracts Customers**

With virtually every service station tied to buy exclusively from a single supplier, price competition in sales from marketing divisions to service stations is practically impossible.

With all service stations buying at uniform dealer posted tank wagon prices and oil companies using effective methods of controlling retail pump prices, price competition at the retail level is at a minimum.

Curb prices are not posted, oil company advertising never emphasizes price, and the majority of motorists assume a uniform price and are unaware that price differences exist.

Price competition was not being used by major brand companies as a means of attracting customers.

At the same time as price competition was being minimized, competition in other forms was being stressed.

Privately owned outlets were being eliminated by oil company policies of building too many service stations and subsidizing lessee outlets which enabled them to survive when owned outlets failed. Oil company policies of building too many service stations were justified by theories of "protective representation" under which every company wanted to be represented in every market, no matter how small, and "motorist convenience", which argued that the most important consideration to the motorist was convenience and if you wished his business you had to have a station in a location that was close and convenient to him. These theories were so seriously advocated for so long that oil company marketing people were conditioned to believing their own propaganda, and became oblivious to economies of retailing and attractions of price.

From their behaviour in building too many service stations, whose small volumes were dispensed at maximum costs per gallon, they appeared to overlook the drawing power of price competition and to be dubious about the prospects of saving marketing costs by economies of scale.

The application of efficient retailing techniques to the sale of gasoline by department stores, who are always conscious of the attractions of price, and by some other large off-branders, gained a degree of success which appears to have surprised the oil companies.

Imperial Oil Limited, in its presentation to the B.C. Royal Commission on Gasoline Price Structure, stated as follows—

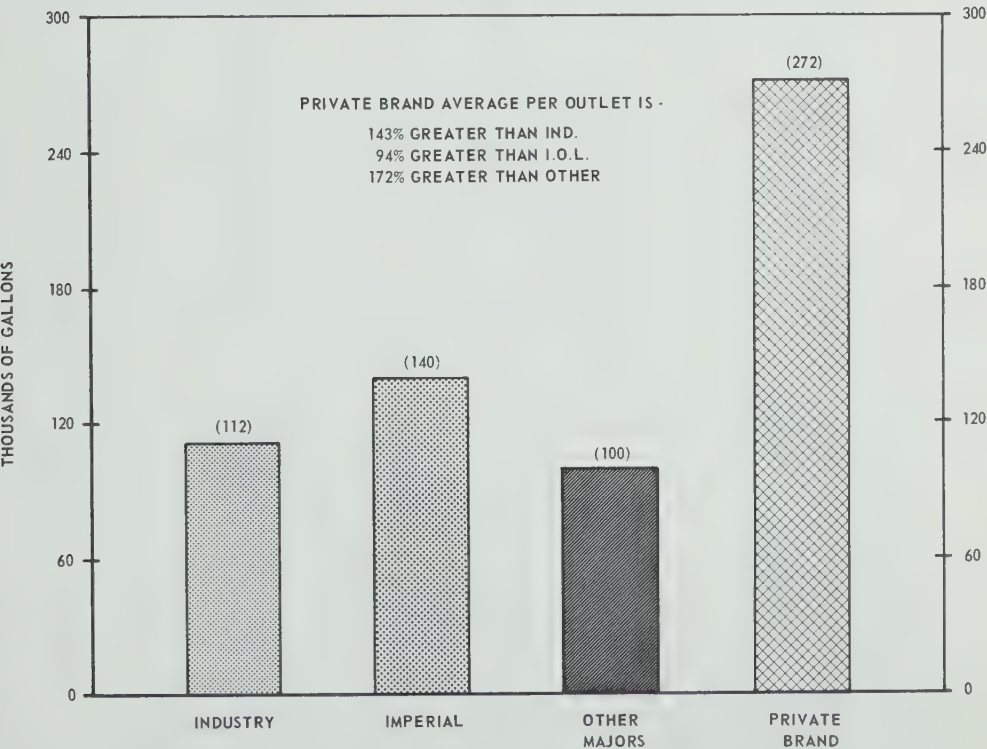
“Private branders entered the market first relying almost entirely on price to attract business . . . In metropolitan Vancouver they accounted for an estimated 11 percent of retail sales by 1962.

Chart 101 shows the estimated average volumes handled by major brand and private brand outlets in the Lower Mainland and Victoria markets. While these volumes represent Imperial's estimates, they are reasonably accurate. This exhibit shows that industry outlets sell an average of 112,000 gallons a year; Imperial stations average 140,000 and other major brand outlets average 100,000. Private branders, however, average 272,000 gallons. In other words, the private brand outlet is doing 94 percent more business than an Esso station on the average, 143 percent more than the industry generally, and 172 percent more than majors other than Imperial. Since these average figures contain a wide variety of outlets and locations, one cannot properly attribute all of the difference to price but the impact of a price differential between outlets is certainly part of the answer.”

CHART 101

VANCOUVER LOWER MAINLAND - VICTORIA

EFFECT OF PRICE DISCOUNTING  
IN TERMS OF STATION AVERAGES



SOURCE - IMPERIAL OIL LIMITED - 1963 RETAIL MARKET ASSESSMENT



In Alberta, we found that department store outlets differ very greatly in characteristics and in volume from one's usual mental image of an off-brand outlet. Chart 20, appearing in Chapter 7 of this Appendix, illustrates the comparative volumes in Alberta of off-brand outlets and department store outlets. Because of the obvious differences between department stores and the customary off-brand outlets, we categorized department stores as a different category than off-brand outlets generally. Imperial, in its comments about B.C. volumes, has placed department stores and other off-branders in the same category, which tends to raise the average gallonage figure quoted for off-branders.

The department store is aware of the attractions of price to its customers. The department store has experience with economies of scale, under which capital costs per unit of sales, and labor costs per unit of sales, can be reduced by increasing volume, and by greater efficiency in the use of capital and labor as described in Chapter 23 of this Appendix.

In Imperial Oil's presentation to the B.C. Royal Commission, it illustrated the extent that price attracted customers in three separate cases:

- (a) Northview Esso in Nanaimo,
- (b) Woodward's Oakridge in Vancouver,
- (c) Canadian Tire Company in Toronto.

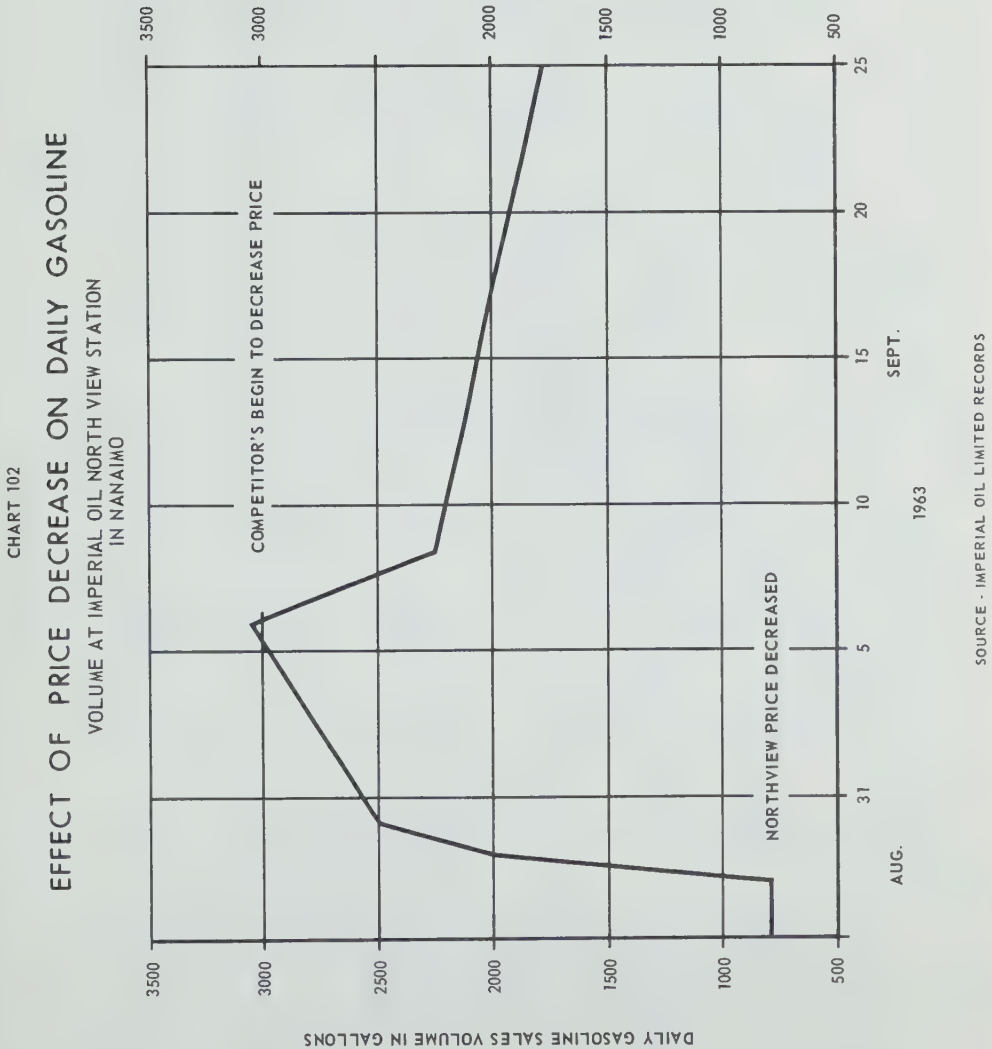
Imperial Oil's presentation respecting these three cases read in part as follows:

### Northview Esso in Nanaimo

"Another way to illustrate the impact of price differentials is to outline the history of Northview Esso in Nanaimo.

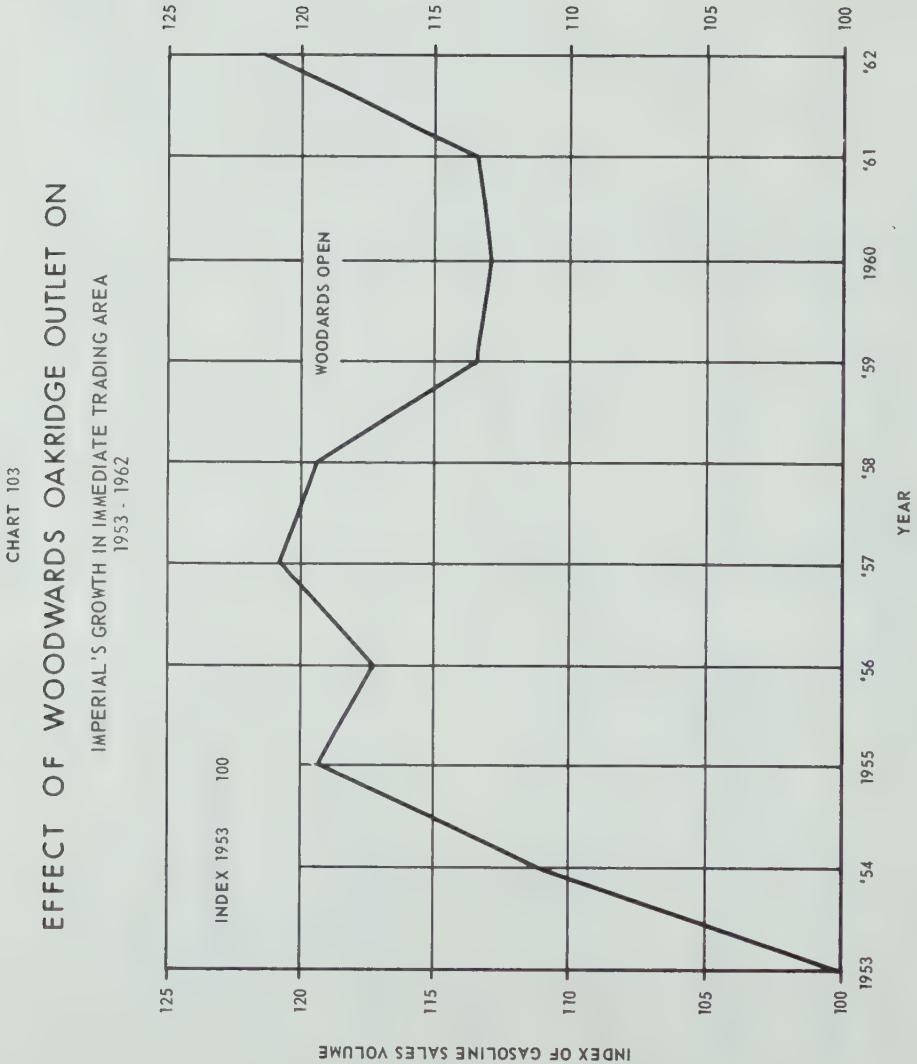
In June, 1963 Imperial conducted a price survey in Nanaimo. Major brand outlets were posting pump prices between 45.9 and 46.3 cents per gallon for the regular grade and from 49.0 to 49.7 cents per gallon for premium grade. There was one discount and its prices were 43.9 for regular and 46.9 for premium.

On August 29, prices at Northview Esso were reduced to 43.9 cents a gallon for Esso and 48.9 for Esso Extra. Chart 102 shows the sales volumes of Northview. The day before the station reduced its prices, it sold 804 gallons. On the day following, sales rose to 1,999 gallons and continued to climb for several days, passing the 3,000 gallon a day mark on September 6. After September 6, and more noticeably after September 8, sales declined to the 2,000 gallon level. It was during this period that competitive stations began posting lower prices."



### Woodwards Oakridge in Vancouver

"Chart 103 shows what happened to the sales volumes of six Esso stations in Vancouver when Woodward's Oakridge station opened for business in their trading area. The exhibit shows the total volume of business done by the Esso station since 1953, using that year as an index base of 100. During the years 1953 to 1957-58, the Esso stations had a fairly rapid growth rate. In April, 1959 Woodward's opened their station offering discounts of three cents a gallon. The exhibit shows that business at the six Esso stations then fell back to about the 1954 level and stayed there until 1962 when volumes began to recover."



SOURCE - IMPERIAL OIL LIMITED RECORDS

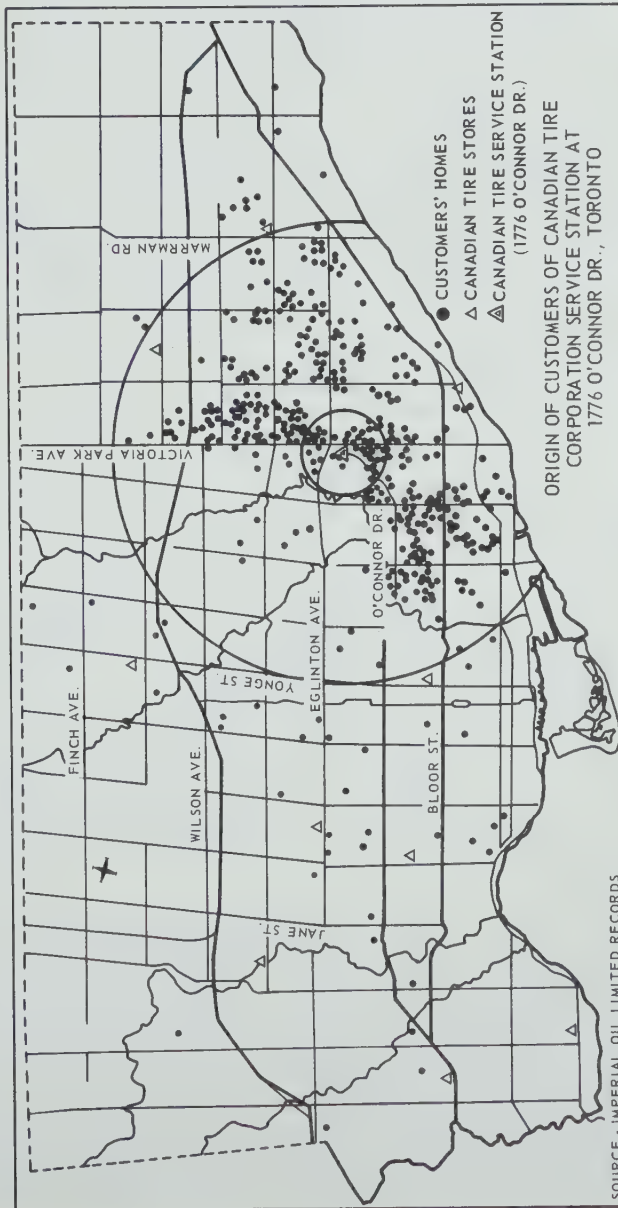
### Canadian Tire Company in Toronto

"One more example of the impact of private branders on volumes has been shown because it is one of the few studies available which gives an accurate description of the pulling power of a discount operation. This was a study of two Canadian Tire outlets in Toronto during 1961. The two C.T.C. outlets have operated with discounts and premiums which are then redeemable on merchandise sold in Canadian Tire stores. By doing an actual tabulation of the vehicles going into the outlets and then tracing their home origin by means of the licence plates, an accurate picture of the trading area affected by the discount outlets was obtained and this was compared with known Esso trading patterns.

Chart 104 indicates the wide dispersal of the C.T.C. gasoline purchasers. Less than seven percent of the customers of the one outlet and less than 10 percent of the second outlet lived within  $\frac{3}{4}$  of a mile of the outlet they patronized. Normally, in the fringe residential districts of metropolitan cities like Toronto, major brand stations derive approximately 40 to 45 percent of their business from customers living within a  $\frac{3}{4}$  mile radius and in concentrated residential areas the percentage is between 55 and 65 percent. In a mixed industrial and residential district the percentage is around 30 percent.

From this it is evident that discount operations can pull customers in from over a wide area."

CHART 104





### (3) The Public Interest in Off-Brand Price Competition

Privately owned service stations having been largely eliminated by oil company policies of building too many service stations and subsidizing lessee outlets, there is no longer as much need for the "cartel" to maintain too many service stations, so surplus stations can now be closed.

The success of large scale, low cost, efficient merchandisers, such as Canadian Tire and the department stores, indicated that convenience was not the most important consideration to the motorist and that the motorist could be attracted from a wide area. The motorist will apparently forego convenience for a lower price.

The oil companies now appear to be turning to larger outlets to gain economies of scale and to reduce the cost per gallon of retailing gasoline.

In answer to question 28, of oil company questionnaire 7, one major company stated:

"... the service station of tomorrow will have to incorporate facilities of more varied scope than the simple two pump two bay outlet ... (name of company) has not built a simple two bay two pump outlet since 1963".

Several companies appear to be building large, strategically located stations, such as service centers, which have several service bays and are equipped to handle very large gallonages.

Department stores with their large volumes, their low costs per gallon, and their merchandising practice of combining larger volumes with lower markups, seem more inclined to pass their savings on to their customers than has been the case with conventional gasoline marketers. Their success appears to have stimulated oil companies to accelerate changes in their marketing practices.

Motorists pay a higher price for gasoline than any other category of gasoline purchaser, due in part to the high cost of retailing. Costs of retailing are high because of oil company practices of

- (a) building too many service stations;
- (b) subsidizing uneconomic lessee outlets;
- (c) eliminating price competition in sales by oil companies to service stations by the system of tied outlets;
- (d) suppressing real price competition at retail by discriminatory point pricing, or zone pricing, and by commission consignment aimed at particular price competitors;

with the result that volumes are so low, in most outlets, that the cost per gallon of retailing are unnecessarily high. Price competition would normally eliminate uneconomic outlets and wasteful marketing practices, but only limited price competition is permitted. Accordingly, the high costs of inefficient retailing must ultimately be borne by the purchaser, the motorist.

It is in the public interest that off-branders, generally, and department stores, in particular, should have an assured supply of gasoline so that their ability to compete and introduce innovations into the marketing of gasoline is not impaired.

A. Milton Moore, Professor of Economics at the University of British Columbia, in March of 1968 made a submission to the Special Committee of the Legislature of British Columbia appointed to review the pricing of gasoline in which he stated:

"There must be a sufficient number of dealers in each market who exert a downward pressure on pump prices. And there is not likely to be sufficient constraint on the dealer's markup unless 20 or 30 per cent of the gasoline sold in a market is sold by 'gas bars' which adopt the strategy of 'low markup — high volume'. And it is usual for most of these gas bars to sell unbranded or private brand gasoline. Consequently, an assured supply of private brand gasoline to independent dealers at a competitive price is a necessary condition of a stable, healthy gasoline retailing industry. When the cut-rate dealer is not in the market, pump prices tend to be raised to cover costs — including the costs of excess capacity. And whenever this is the case, someone is bound to build more stations and add to the excess capacity. So the situation goes from bad to worse because the additional capacity adds to costs, the volume of sales per station decreases and an increase in the dealer's mark-up is required to enable the dealer to cover costs. There can

be no curb upon capacity becoming wastefully excessive unless there are price cutters who push the pump price down to the minimum required to cover fair wages and profits when the station is handling all the customers possible during the peak hours of trade without keeping customers waiting.

At present, the only source of private brand gasoline available to dealers who want to be truly independent is the private brand jobber. However, the jobber's supply is itself not assured. Consequently, the jobber cannot guarantee a supply at a competitive price — which means a guarantee that he will sell to his independent dealers for a lower price than that paid by the major brand service station dealer. To remedy this defect of the market, I suggest that the Government of B.C. be prepared to perform a jobbing function. The provincial government now buys a great deal of gasoline from the major oil companies. The companies bid at tender for supply contracts and the prices bid are several cents below the prevailing dealer tankwagon price. That is, the government of the province as well as municipal governments and large commercial accounts, buy at prices corresponding to the price to a jobber rather than the price to a service station. I recommend that the provincial government stand ready to be the residual supplier of unbranded gasoline to the independent private brand jobber. That is, whenever a jobber has difficulty in finding a supply of gasoline sufficient for his needs at the usual jobber's price, the provincial government should be prepared to sell gasoline to him at that price. Armed with this guarantee of supply at a competitive price, the independent jobber would be in a position to guarantee supplies to independent dealers at a price less than the dealer tankwagon price of major brand gasoline. At present, the independent jobbers of unbranded gasoline cannot win a sufficient number of independent service station customers to make their operations viable. Consequently, the jobbers have been forced to copy the major oil companies by building or otherwise acquiring stations which they lease to their own lessee dealers or operate by commission agents. If the independent jobbers had full security of supply of unbranded gasoline at a competitive price I would expect that they would be able to persuade a substantial number of independent dealers of major brand gasoline to become their customers when their supply contracts ran out. I would expect that the lure offered would be an undertaking to sell unbranded gasoline at one or two cents below whatever the dealer tank wagon price of major brand gasoline happened to be. By so doing, the independent jobbers could capture a larger share of the market. And, since a service station which sells unbranded gasoline must obtain a large volume of sales to be profitable, I would expect their undercutting of the pump prices of major brand dealers to be a stable feature of the market — rather than a spasmodic affair as it has been so far. Consequently, there would be the steady downward pressure upon dealer margins which is needed to prevent excess capacity. If the private brand jobbers did not respond to an assurance of supplies of unbranded gasoline at a competitive price by guaranteeing supplies to independent stations at a discount, I would recommend that the provincial government perform that function itself, through a crown corporation.

Once the independent major brand dealers (owned outlets) possessed the very real alternative of switching their supplier from a major brand company to a private brand jobber, their bargaining position vis-a-vis the major oil companies would be much enhanced. For example, I should expect that the pressure on the independent dealers to participate in sales promotion schemes would be reduced. At the second remove I would expect that the bargaining position of the lessee dealer would also be improved. Now, he has no effective alternative to remaining a lessee dealer. But once it became possible to operate an independent station profitably, some of the successful lessee dealers who could accumulate a little capital could realistically plan to go into business for themselves. And the possession of this alternative would act as a constraint upon the freedom of action of the major oil companies in their dealings with their lessee dealers."

Our Committee agrees with Professor Moore that, it is in the public interest, (a) that off-brand wholesalers should have an assured supply of gasoline; and (b) that their supply should be at a price which enables them to be competitive at retail.

Professor Moore has outlined one method which, in his opinion, would guarantee off-branders a supply at a competitive price. Our Committee considers that other methods also have possibilities.

If the government does not wish to become involved directly in the business of marketing gasoline through a Crown corporation or otherwise, refiners could be requested to make available a certain percentage of their production to the off-brand market. Perhaps legislation could be enacted providing that no refiner may refuse to sell to an off-brand wholesaler, unless the refiner is already selling 25% or more of its production to such off brand wholesalers.

On the question of price, the Committee considers that the price to an off-brand wholesaler should be the same as, or very close to, the transfer price from a refining division to a marketing division. In the case of some major integrated



companies at least, refining and marketing are considered as "a single profit center" and they do not presently use a transfer price. However, the integrated company could fix and determine a transfer price, in the same way that it is now required to fix and determine a transfer price in respect of crude passing from its production division to its transportation or refining division, when it is being exported from such countries as Venezuela or The Middle East. In that case, the transfer price is fixed primarily for the purpose of calculating royalties, or makeup payments, payable to the government of the exporting country. By similarly fixing a transfer price from a refining division to a marketing division, this "price" would represent the realization of the refining division and also the "cost" of the marketing division.

An off-brand wholesaler, which performs the same function as the marketing division, should pay either the same price as the marketing division or within one cent per gallon of the transfer price to the marketing division. If the off-brand wholesaler can effect economies of marketing, which enables it to supply its retail outlets at a lower dealer tank wagon price, this would be an incentive to the marketing divisions of brand name integrated companies to effect economies in marketing and keep their dealer tank wagon prices competitive.

The price competition, thereby enabled, would tend to eliminate wasteful practices such as building too many outlets, subsidization of uneconomic outlets, "giveaway" advertising promotions, and, hopefully, to lower retail prices to the motorist. Alternatively, it would give the motorist a genuine choice between brand name products and convenience on the one hand, and off brand products and cheaper prices on the other hand.

#### **(4) Conclusions and Recommendations re Price Competition**

In considering the relationship between oil companies and service station operators, we are of the opinion that many of the more serious problems which do exist are due to the desire of the oil companies to administer prices and to restrict price competition. If price competition existed at various levels, many of these problems would disappear.

The oil industry is a vertically integrated, monopolistic industry in which prices are administered and controlled, and where price competition is practically non-existent.

Professor T. Barna of The Monopolies Commission in Great Britain stated:

"In the petrol trade the incentive of the retailer . . . to improve service is greatly reduced since the suppliers discourage him from seeking higher turnover by reducing price."

"Esso has offered its solus retailers a bonus for additional sales but it has emphasized that the retailer should obtain additional sales by improved lighting on the station, by staying open longer, or by employing more staff, but not by cutting prices."

The world's export crude is controlled by 8 gigantic companies which are closely interwoven in joint producing companies and other forms of close co-operation.

The same eight companies, which largely control the world's export crude, are the world's largest refiners and marketers. At the point where these oil companies finally sell their gasoline to service stations, such sales are to "tied" outlets bound to purchase exclusively from one company. Such "tied" outlets have no bargaining power and no choice, and they buy at the highest prices paid by any class of customer.

Service station operators complain about lower prices paid by commercial consumers and industrial consumers. Some price competition does exist for such sales. These consumers are not "tied" by exclusive buying contracts, and, as a result, their bargaining power produces lower prices.

The off-branding is primarily a customer of the integrated oil companies (rather than a competitor). The off-branding is a competitor of retail service station operators (as distinct from a competitor of the oil companies) and his retail competition is severely limited and controlled by the integrated oil companies.

The system of point pricing, or zone pricing, used by the oil companies, permits price discrimination and unfair pricing which can be used to eliminate possible price competition from specific retailers, specific wholesalers, and specific refiners.

The oil companies use commission consignment to control retail prices. It is an effective two-edged sword. Its use forces off-brand outlets, which want to compete in price, to raise their prices, and forces brand name dealers to accept lower earnings.

The integrated oil companies, in their desire to control all pricing in the industry from the well head to the motorists tank, sell their gasoline to service stations, but still use many devices to influence the price the retailer can charge. These efforts to control retail prices impose strains on the relationships between oil companies and service station operators.

In our opinion, the entire oil industry is geared to the elimination of price competition at every level and as far as the law allows.

If conditions were altered to encourage a greater measure of price competition in this monopolistically inclined industry, we believe the motorist would benefit from lower prices and many of the sources of friction between the oil companies and their operators would be removed.

A number of steps could be taken, each of which would permit or encourage a greater measure of price competition at different levels in this integrated industry.

**1. Posting of retail prices.** Price is a more significant factor in attracting customers than many of the presently advertised attractions, such as prizes or premiums, the cleanliness of wash rooms, etc. The advertising of price would tend to promote price competition at retail, which, in turn, would encourage study of what wasteful marketing practices could be eliminated, thereby reducing costs.

In an article in the October 1968 issue of "Consumer Reports", an article entitled "Buying Gasoline", reads in part as follows:

"Price, however, is something else. Prices for a given designation of the majors differ from city to city, differ within the same city, differ from the independents' prices, and change seasonally. Obviously you must shop around if you're interested in price. We found that, on average, buying a major brand at a cut-rate station will save you about 1.5c per gallon over the price for the same brand at a regular station, regardless of designation. And if you can switch from a branded gasoline sold at a regular price to an independent gasoline sold cut-rate, you can save about 4c per gallon. That adds up to \$28 a year for 700 gallons, which is about the national annual average gas consumption per car. As for price wars, the one in Milwaukee saved drivers as much as 11c for 'premium' and 4c a gallon for 'regular', without loss in octane values."

A large percentage of motorists are unaware that differences exist in retail prices. You can't have price competition if the public is unaware of differences in price. In the public interest, all retail outlets engaged in the sale of gasoline to motorists should be required to post a sign showing the price per gallon of gasoline in figures large enough to be clearly visible by passing motorists. If the price includes fractions of a cent or decimals, such figures should not be less than half the size of the figures representing cents. Curb price signs are posted during price wars, but, are quickly removed when price differentials are reduced to normal levels. We recommend that such price signs be required at all times.

The price per gallon should also be clearly entered on each invoice or receipt given to a customer, and not just the total dollar amount of the gasoline purchase.

**2. Severance of exclusive buying and other restrictive ties.** Oil companies sell their gasoline to service station operators. Price competition is practically impossible in such sales because nearly all service station operators are bound by long term contract to buy exclusively from a single oil company. Service station operators have no freedom to respond to price competition, even if it existed. There is no point in the oil company offering lower prices to attract more volume because service station operators are tied and cannot respond. The severance of exclusive buying provisions, and other restrictive ties, would be the greatest single step that could be taken to restore the opportunity for competition on the basis of quality, service and price.

**3. Prohibition of Commission Consignment.** The gigantic integrated oil companies, which operate internationally, generally refrain from price competition with one another. If price competition develops it usually originates from a small operator, with relatively limited resources, who markets in a limited area. The integrated companies institute commission consignment so that price competition from such a source can be isolated, confined, and either disciplined to acceptable



price differentials or driven out of business. The use of commission consignment halts the price competition, and in the process, the service station operators, who were placed on commission consignment, may suffer severe financial losses. Price competition benefits the motorist, and it is in the public interest that new marketers should develop as a small counter balance to the marketing dominance of the "cartel" companies. Temporary price reductions in a limited area, directed toward the elimination of competition are unfair and not in the public interest. We accordingly recommend prohibition of the system of commission consignment in the case of leased stations and in the case of owned stations.

**4. Elimination of cost of service stations from wholesale tank wagon cost of gasoline.** The service station dealer when he buys gasoline pays for

- (a) all the costs of producing and refining gasoline; and
- (b) some costs of providing oil company owned service stations.

This is discriminatory against the service station dealer who owns and pays for his own service station, because in his wholesale price of gasoline he is compelled to pay part of the cost of providing service stations for lessees who are his competitors. This practice tends to eliminate independent competition by eliminating the owned service station which has more independence and bargaining power. It helps the oil company to subsidize its lessees and to maintain the monopolistic position of the "cartel" in marketing.

The cost of providing service stations is not a refining expense, but, is a retail expense which should not be included in the wholesale cost of gasoline. The service station operator's cost of gasoline could be reduced 1.87c per gallon by eliminating the cost of providing oil company owned service stations. Building of service stations is not a cost of refining, and if price competition existed between refiners a lower price per gallon could be offered by a refiner who wasn't asking his gasoline customer to pay for the cost of building service stations.

**5. The cost of credit cards.** The cost of credit cards is also a cost of retailing rather than a cost of refining. The cost of credit, desired by the customers of a service station operator, is not a cost of manufacturing gasoline. It is a retailing cost which arises after the service station has bought the gasoline. However, the cost of credit cards is also recovered from the wholesale dealer tank wagon price for gasoline.

This practice tends to eliminate independent competition by making it more costly for independents to compete at retail. The integrated company recovers its cost of granting retail credit when it sells gasoline to service stations. An independent, competing with the integrated company, has to buy gasoline, and in addition, has to pay the cost of providing credit to its retail customers. We recommend that the cost of credit cards be eliminated as an element entering into the wholesale cost of gasoline, which would enable the reduction of the posted dealer tank wagon price by more than 1/2c per gallon. We recommend that the oil company recover its cost of credit cards by adding to each credit card customer's monthly statement a credit service charge based on the purchases actually made on credit by that customer. This would give the customer a free choice of whether he wished to purchase for cash and save the cost of credit or whether he wished to use the credit card service and pay the costs for this convenience. The cost of gasoline to the service station operator could be reduced 2 1/2c per gallon if it did not include the cost of service stations and the cost of credit cards.

**6. Separation of Wholesale and Retail Financial Records.** Any oil company or other supplier of petroleum products which sells gasoline to service stations, and which directly or indirectly owns or controls service stations shall keep separate financial records for its wholesale or marketing division as distinct from its retail division. The marketing division records or wholesale records shall include all expenses, costs, and income relating to sale and distribution of products to retail outlets. The Retail Division records shall include

- (a) all costs of acquisition of service station sites;
- (b) all costs of planning, construction, maintenance, renovation and repair of service station premises;
- (c) records of moneys advanced to service stations secured by mortgage or otherwise;

- (d) costs of equipment, either purchased for service stations, loaned to service stations, or being rented to or sold to service stations;
- (e) rents paid for service stations and rents or occupancy charges received from service stations;
- (f) taxes, utilities and other rates, charges and licenses paid in respect of service stations;
- (g) interest in respect of monies borrowed by the oil company to provide service stations, and interest received by the oil company from service station mortgages or loans;
- (h) costs of training for service station operators;
- (i) costs of credit cards used by customers who purchase from service stations;
- (j) all other income costs and expenses relating to ownership and operation of service stations by the company and administration of service stations by the retail division.

By removing retailing costs from the marketing division, this could reduce marketing division costs by 50% or more, which would enable a substantial reduction in Dealer Posted Tank Wagon Price. Privately owned retail outlets would be competing on a fairer basis with oil company owned lessee operated outlets which would no longer receive the discriminatory rental subsidy.

**7. Pricing F.O.B. the refinery supply point.** The present system of point pricing, or zone pricing, provides opportunities for discriminatory prices and unfair price competition which can be used to eliminate possible competitors, and tends to preserve the monopolistic position of the integrated international companies. If pricing f.o.b. the refinery supply point was required, businesses which wanted to compete in price to become established, whether at retail, wholesale, or refining levels, would have a greater opportunity of success.

**8. Assurance to off-branders of adequate supplies at competitive prices.** Off-brand operators and department stores, notwithstanding the limitations and restrictions under which they now operate, obviously introduce an element of competition which is desirable from the public point of view. As they are wholly dependent both for supplies and for price on the integrated oil companies, with whom they compete, it is obvious that they are vulnerable. We recommend that no oil company owning a refinery can refuse to sell to or to supply the requirements of any off-brand wholesaler who does not have refining facilities of his own, unless 25% or more of the refiner's production of gasoline and diesel is already being supplied to other similar off-brand wholesalers. We further recommend that the price chargeable to an off-brand wholesaler shall not exceed the transfer price from the refining division of the integrated company to its marketing division by more than 1c per gallon.

The Committee finds difficulty in justifying a volume discount on any basis of cost, as between customers who take delivery in full tank truck loads. We mentioned a differential of 1¢ per gallon, mainly because a differential now exists, but it certainly should not exceed 1¢.

About half of all gasoline deliveries are made in Edmonton and Calgary from refineries located in those cities. Deliveries, whether to service stations, commercial customers, or industrial customers are normally by tank truck. What happens from a physical standpoint is illustrated in Chart 100.

Each separate tank truck load is really a separate transaction, just in the same way that each separate time a motorist fills the tank of his car in a service station is a separate transaction. Each has to be individually recorded, a delivery slip prepared and an invoice rendered. A large volume customer may get one invoice covering several tank truck loads, whereas a small volume customer may get a separate invoice for each load.

The truck loading rack at the refinery is like a service station on a large scale, except that instead of motorists driving in to fill the tank of a car, each customer who drives in receives a tank truck load of some thousands of gallons.

The gasoline is in storage in tankage on the refinery site. Just outside the re-



finery site separated by a fence is a truck loading rack which is connected by pipeline to the refinery storage. When a truck pulls up to be loaded at the loading rack, gasoline flows from the refinery tankage through a pipeline to the loading rack and into the truck. There is a meter in the pipeline where possession of the gasoline changes from the refinery to the purchaser from the refining division, e.g. the marketing division or the off-brand wholesaler, etc.

The marketing division or the off-brand wholesaler is only briefly in physical possession of the gasoline, for the short time it flows from the meter through the loading rack, and while the tank truck is actually travelling the five or ten miles to the customer's storage in the city, which may total approximately one-half hour. The tank trucks operate on a shuttle service from the loading rack to the customer's storage, whether the customer is a brand name service station, a commercial consumer, an industrial consumer or an off-brand service station.

What differences in cost are there between supplying different types of purchasers such as service stations, commercial consumers or industrial consumers, or between supplying a large volume purchaser and a smaller volume purchaser?

The marketing division's annual requirements might be 14,000 truck loads, which are loaded and delivered daily to hundreds of service stations at differing addresses. An off-brand wholesaler such as Woodward's might have an annual requirement of 400 such truck loads, to be loaded and delivered in daily installments. A single large service station might have an annual requirement of 100 such truck loads, to be delivered at intervals throughout the year. A commercial or industrial consumer might have an annual requirement of 50 such truck loads to be loaded and delivered at designated intervals. The Committee can see no difference in cost whatsoever between a truck load, loaded and delivered in this way to one kind of customer as compared with another kind of customer.

The volume of gasoline going into each truck is handled identically and the date and volume have to be recorded and communicated to the customer irrespective of who he is. There may be a small difference in billing costs. A marketing division or an off-brand wholesaler may each receive a monthly or an annual billing, whereas a service station operator receives an invoice for each load. A difference in price of one cent (1¢) per gallon between a marketing division and an off-brand wholesaler like Woodward's would amount to \$60.00 per tank truck load, assuming a 6,000 gallon tank. A marketing division which took annual delivery of 14,000 truck loads at a one cent discount would pay \$840,000 less than if the price to both were the same.

It is the same principle as giving a cheaper price per gallon in a service station to the motorist who fills up four times per week, as compared with the motorist who fills up once per week.

The other argument for a volume differential for a large purchase is based on economies in refining costs. In Chapter 30 (3) we conclude that the total cost of refining would vary from approximately 2¢ per gallon to 3¢ per gallon. A price differential of 1¢ per gallon between the large volume purchaser and a smaller volume purchaser would accordingly represent from one-third to one-half of the total cost of refining. In Chapter 33 (4) it was concluded that price discounts granted to commercial customers range up to 10¢ per gallon which is more than three times the total cost of refining, and such discounts cannot be accounted for by economies in refining.

Our conclusion accordingly is that if there is to be a differential between the "transfer price" charged by a refining division to its marketing division as compared with the price charged by the refining division to an off-brand wholesaler, such differential should not exceed 1¢ per gallon.

It seems to the Committee that if discounts were to be related to savings in cost, the maximum discounts should be offered for the maximum single delivery. For instance the discount to the purchaser of a 7,000 gallon tank truck load should be slightly higher than the discount to a person who takes delivery of a 6,000 gallon tank truck load. We see little justification for a price differential between two customers each of whom takes delivery of the same size of tank truck load, even though one customer agrees to take a larger number of such loads.

## PART 9

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## PART 9

### BULK DISTRIBUTION AND SALES

#### CHAPTER 37. FUNCTIONS AND REMUNERATION OF BULK AGENTS AND FARM DEALERS

##### (1) Functions of Bulk Stations

A large portion of the merchandise marketed by oil company marketing divisions, is physically handled by bulk stations and farm dealers. In 1965 oil companies had 1140 such outlets located in Alberta. Most marketing companies had some bulk outlets in every area of the province.

**Bulk Stations** have two main functions:

- (a) **the handling function** of receiving and distributing products that have been sold by an oil company marketing division, to its retail dealers and service stations, to its farm dealers and to its larger industrial and commercial accounts,
- (b) **the sales function** of receiving, storing, selling and delivering products to farm consumers and to smaller industrial and commercial accounts.

The customers serviced by a bulk station are classified into two groups:

- (a) **assigned accounts**, being customers who purchase from the marketing division of the oil company but are supplied by a bulk agent who is paid a handling commission of from ½c to 2.1c per gallon for delivering the product;
- (b) **unassigned accounts**, being customers who purchase from the bulk agent who is paid a sales commission of from 2c to 5c per gallon.

The “assigned accounts” are usually governments, the larger commercial and industrial accounts, and other large volume customers. They may include some smaller remote retail outlets not served by direct tank truck deliveries. The “unassigned accounts” are usually farmers, householders for fuel oil and smaller industrial commercial accounts such as small contractors and small truck lines.

**Farm dealers** perform the sales function only, as they just receive, store, sell and deliver products to farm consumers. (See Charts 105 and 106).

The volume “handled” by bulk stations exceeds the amount “sold” by bulk stations because they only sell a portion of the volume they are required to handle. They perform a handling and distribution function only in respect of service stations and retail dealers, and larger commercial and industrial accounts, many of whom purchase directly from the marketing division, but obtain delivery from a bulk plant due to remoteness from a refinery which makes direct deliveries uneconomic.

However bulk stations and farm dealers do have a considerable volume of their own sales consisting of:

- (a) practically all farm consumers; and
- (b) large numbers of smaller commercial or industrial consumers.

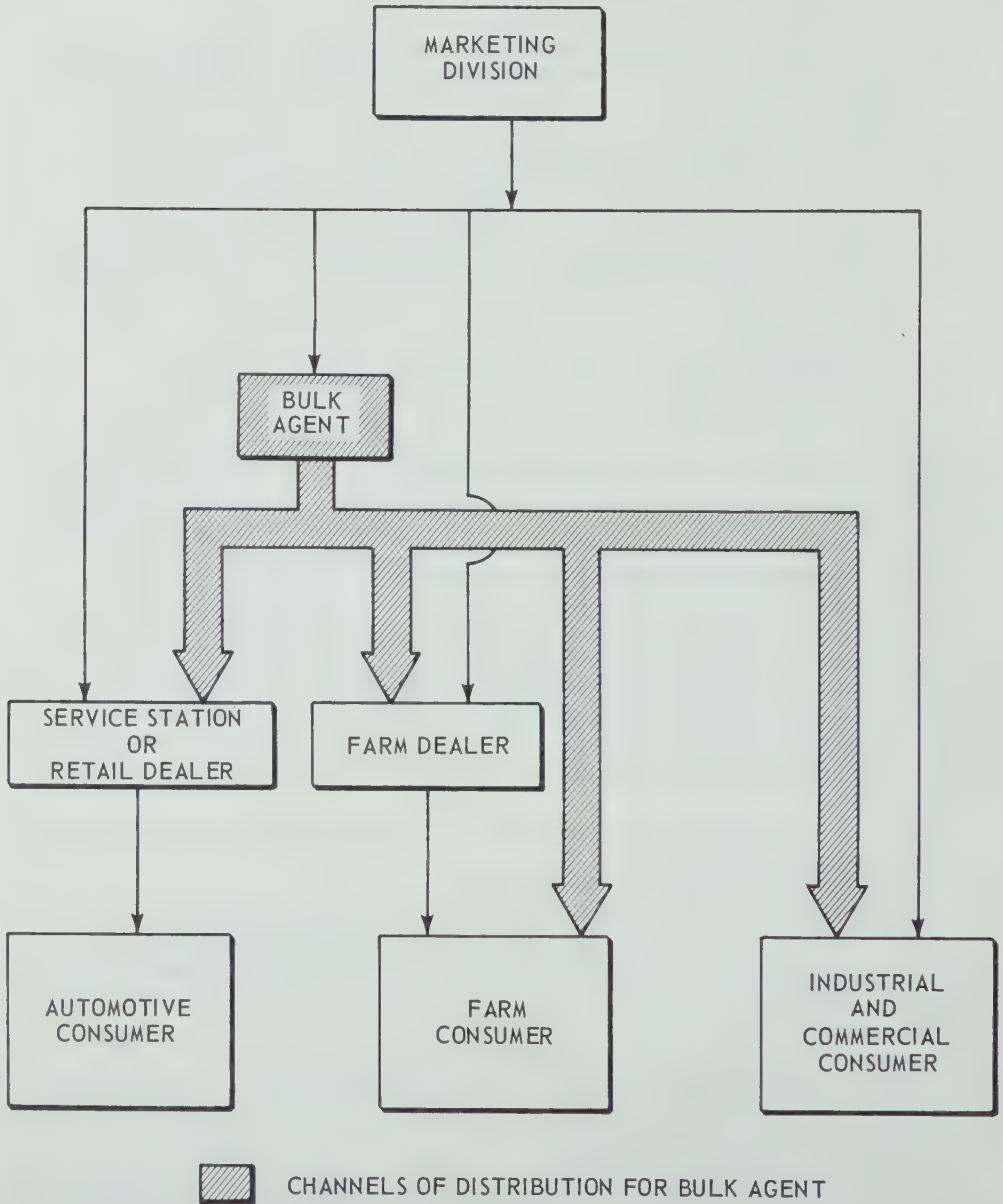
Bulk stations and farm dealers handle a variety of products. Their largest volume comes from the handling of petroleum products such as gasoline, diesel, lubricants, heating fuels, propane, etc. They may also handle farm chemicals, fertilizer and tires, batteries and accessories.

##### (2) Number of Bulk Outlets and Volume Handled

Only 13 of the 1140 brand name bulk stations and farm dealers in Alberta were operated by salaried employees. The balance, 1,127, were operated for the oil companies by commission agents.

The terminology used by oil companies differs slightly, but the functions are the same. For instance in British American Oil a bulk station which performs the handling and distribution function is called a Branch if salary operated, and an Agency if commission operated. A bulk station which performs the sales function is called a Distributorship. Consequently most bulk stations have the dual role of agent and distributor, and the agent signs both an Agency Agreement, and a Branded Distributor Agreement.

**CHANNELS OF PHYSICAL DISTRIBUTION**  
**HANDLED BY BULK AGENT**

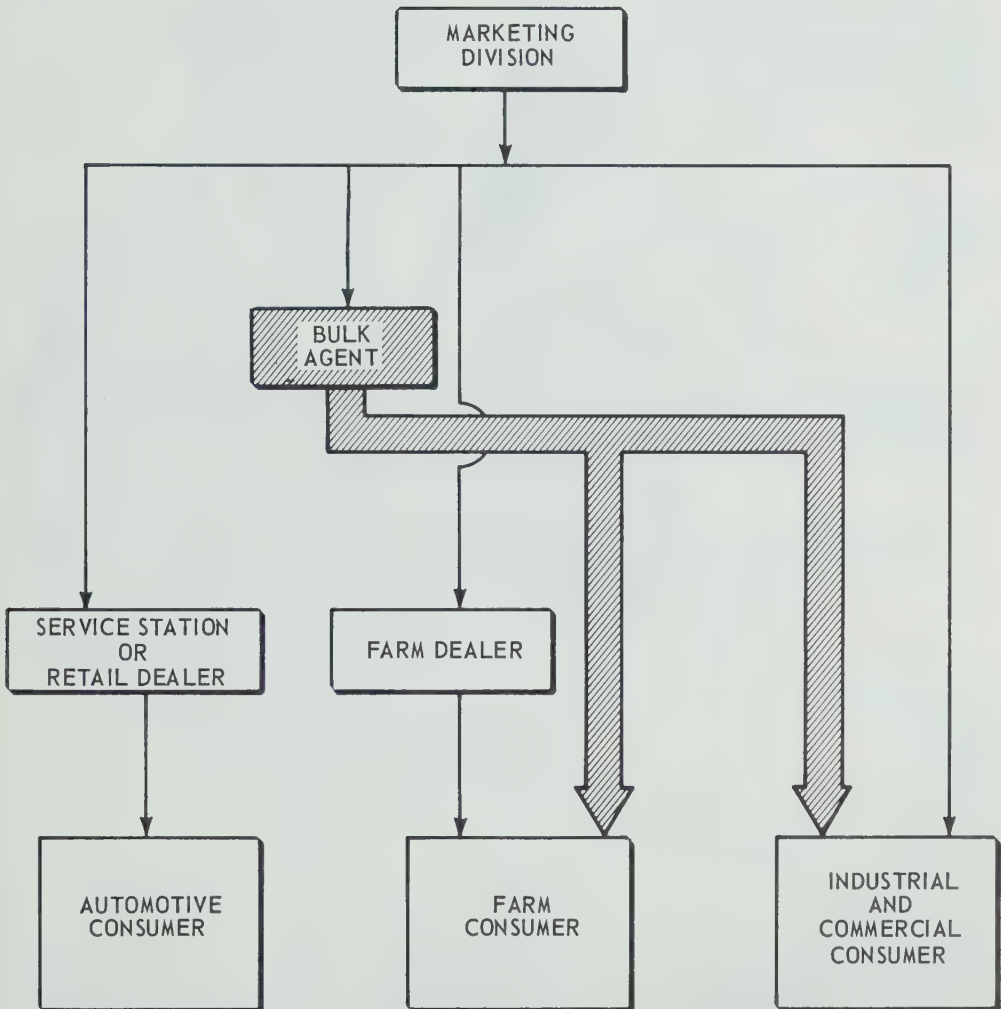


SOURCE: GASOLINE MARKETING ENQUIRY RECORDS.

CHART 106

## CHANNELS OF SALES

BULK AGENT TO CONSUMER



CHANNELS OF SALES FOR BULK AGENT

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS.



Table 161  
Number of Bulk Outlets  
Classified by Type of Operation — Alberta, 1965

	Bulk Agent	Farm Dealer	Employee	Total
<b>"Cartel" Brand</b>				
Imperial .....	200	86	3	289
B.A. ....	240	0	5	245
Royalite .....	147	69	0	216
Shell .....	50	95	3	148
Texaco .....	32	8	2	42
Standard .....	0	0	0	0
Sub Total .....	669	258	13	940
<b>Other Brand</b>				
Federated .....	18	0	0	18
Husky .....	20	7	0	27
Pacific .....	5	1	0	6
Sub Total .....	43	8	0	51
<b>Off Brand</b>				
U.F.A. ....	149	0	0	149
Mohawk .....	0	0	0	0
Sub Total .....	149	0	0	149
TOTAL .....	861	266	13	1,140

Company usually owns land, buildings, and storage tanks of bulk stations. Individual bulk agent or farm dealer usually owns vehicles.

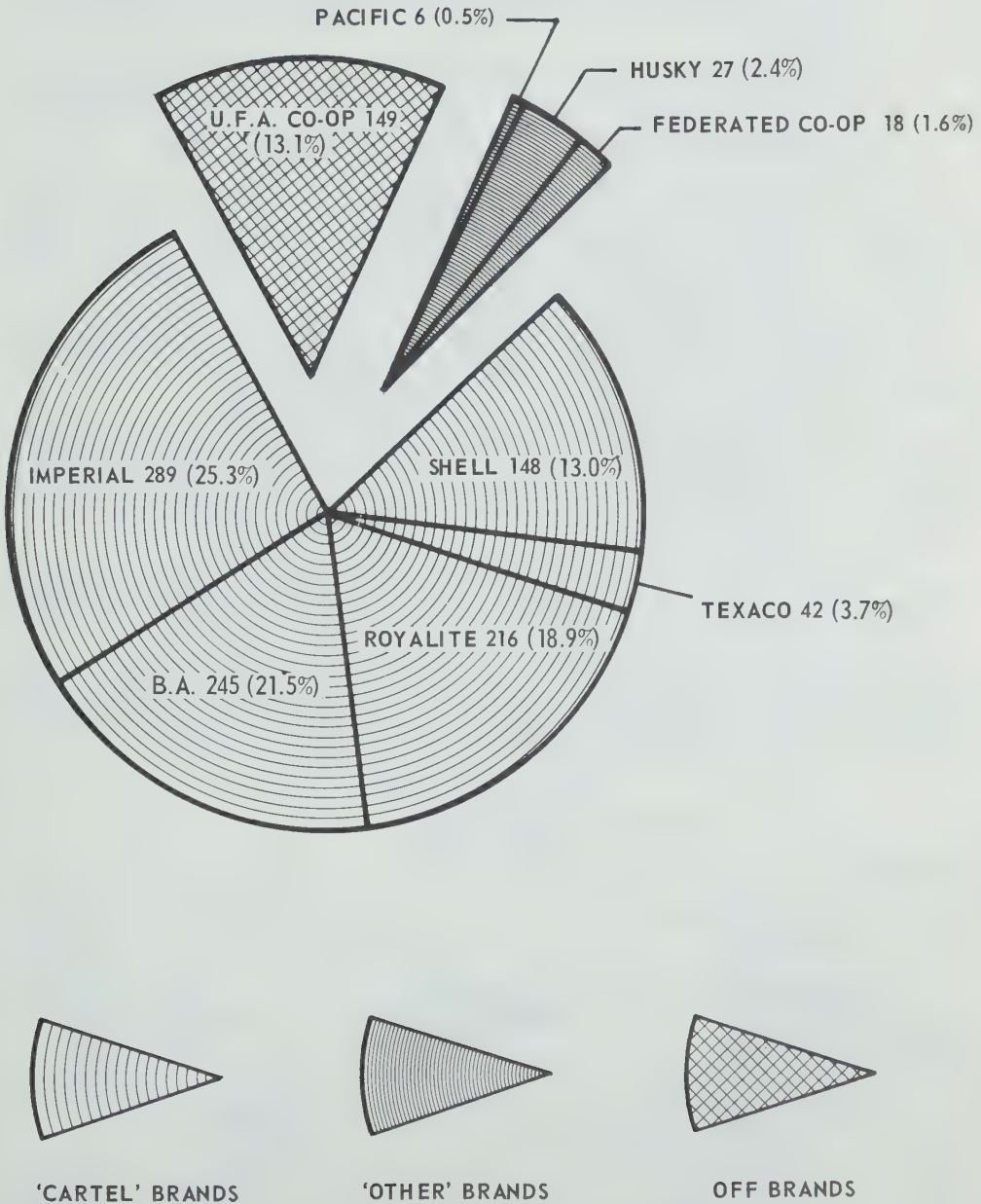
Source: Gasoline Marketing Enquiry Records.

Table 162  
Number of Bulk Outlets by Brand  
Showing Percentage of Outlets by Company — Alberta, 1965

	Number of Outlets	Percentage
<b>"Cartel" Brand</b>		
Imperial .....	289	25.3
B.A. ....	245	21.5
Royalite .....	216	18.9
Texaco .....	42	3.7
Shell .....	148	13.0
Standard .....	0	0
Sub Total .....	940	82.4
<b>Other Brand</b>		
Federated Co-op .....	18	1.6
Husky .....	27	2.4
Pacific .....	6	0.5
Sub Total .....	51	4.5
<b>Off Brand</b>		
U.F.A. Co-op .....	149	13.1
Mohawk .....	0	0
Sub Total .....	149	13.1
Total .....	1,140	100.0

Source: Gasoline Marketing Enquiry Records.

# **NUMBER OF BULK OUTLETS BY BRAND** **SHOWING PERCENTAGE OF OUTLETS BY COMPANY - ALBERTA 1965**



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

The farm market is one of the three basic markets for gasoline in Alberta. The farm market consumes 32% of the gasoline used in Alberta, and practically all of this is sold by the 1,140 bulk agents and farm dealers.

The industrial commercial market accounts for 12% of the gasoline sold in Alberta, although a large proportion of this is sold directly by the marketing division, the balance is sold by bulk agents.

### (3) Commissions

There are three types of commissions used as a basis for remuneration of these bulk agents and farm dealers as follows:

- (a) **Handling commission** is used to pay the agents for receiving, storing and distributing products, to oil company customers, as directed by the oil company.
- (b) **Sales commission** is used to pay for receiving, storing and selling and (in most cases) delivering products to the customers of the agent or dealer.
- (c) **Cartage commission** is used to pay for the extra cartage involved in deliveries to customers involving unusually long hauls.

The rates used for handling and sales commissions vary with oil companies and with the geographical location of the stations. Handling commissions vary in amount from  $\frac{1}{2}c$  to 2.1c per gallon and average 1.28c per gallon. Sales commissions vary from 2c to 5c per gallon and average 2.68c per gallon. (See Charts 110 and 111)

Cartage commissions are usually about  $\frac{1}{2}c$  per gallon for an extra 10 mile trip (20 mile return trip). However cartage commissions are often an amount that has been negotiated between the oil company and the agent.

For "assigned accounts" the bulk agent will receive a handling commission. If the delivery is unusually long he may also earn a cartage commission. These commissions are payable by the oil company to the bulk agent for supplying customers of the oil company such as its retail dealers and service stations, its farm dealers, and its large industrial or commercial consumers.

For sales to his own customers ("unassigned accounts") the bulk agent will receive a sales commission. His own customers are principally farmers and small industrial or commercial consumers such as contractors or truckers.

Most brand name bulk stations are oil company owned. The agent is not charged rent, but is responsible for all other expenses, usually associated with running a business. The agent must provide his own trucks and pays all delivery expenses. He hires and pays the salaries of all employees.

Table 163  
Extracts from Bulk Agent's Financial Statement  
12 Months — 1965

#### Balance Sheet

Cash on Hand .....	\$ 2,485.00
Accounts Receivable .....	25,653.00
Other Assets .....	3,347.00
	<u>31,485.00</u>
Accounts Payable — to oil co. ....	4,626.00
	<u>\$26,859.00</u>

#### Profit and Loss Statement

Gross Commissions .....	\$27,457.00
Expenses: Depreciation .....	1,975.00
Wages .....	6,412.00
Bad Debts (Written off) .....	522.00
Other expenses .....	10,622.00
	<u>19,531.00</u>
Net profit .....	\$ 7,926.00
Less Drawings .....	5,629.00
Balance .....	<u>\$ 2,297.00</u>

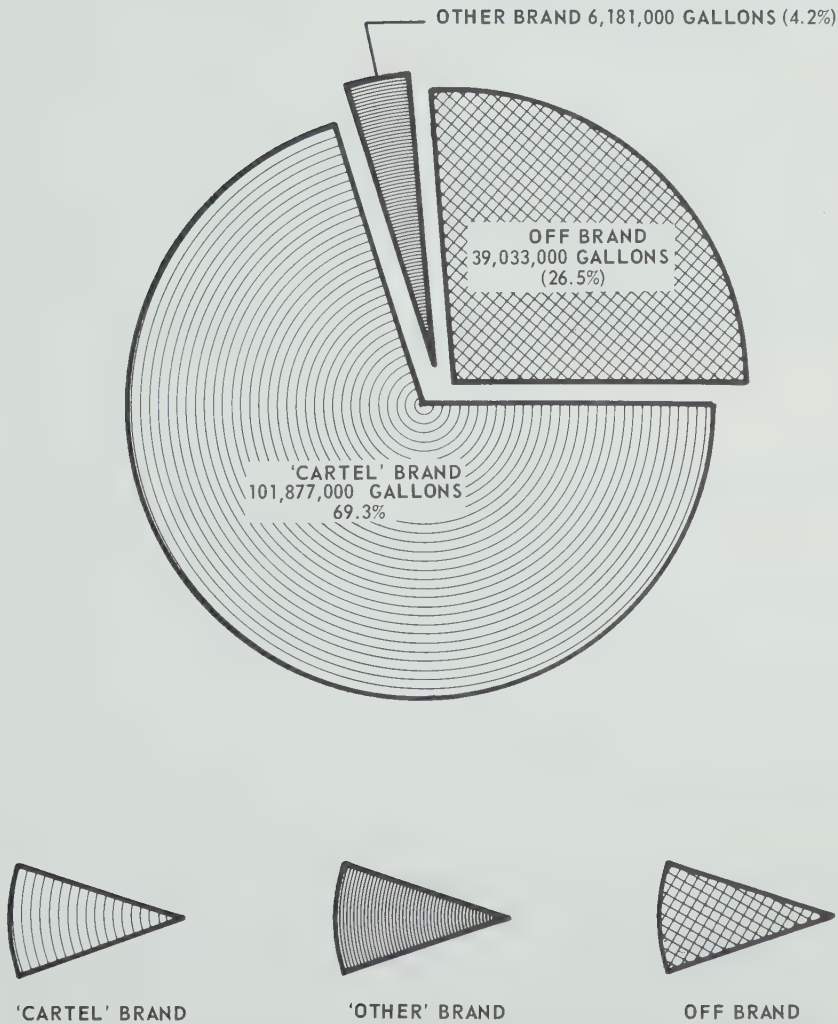
Accounts Receivable at year end almost equal gross earnings for the year.

Accounts Receivable at year end are more than 3 times net profit for the year.

CHART 108

VOLUME OF GASOLINE SALES  
TO FARM AND OTHER CONSUMERS  
BY BULK AGENTS AND FARM DEALERS

CLASSIFIED BY TYPE OF BRAND - ALBERTA 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



Table 163 is extracted from an actual financial statement of a bulk agent's business for 1965. This outlet would be classed as being a better than average agency for both volume and net income. The agent at year end has accounts receivable which are equivalent to his net profit for three years. This agent has been in business for ten years in an excellent farming district where the farmers are generally prosperous. He invested savings of \$15,000 when he started in this business. To enable him to make credit sales his oil company advances credit up to \$50,000.

In the relationships between bulk agents and oil companies the agents interviewed by the Committee placed emphasis on two main problems,—

- (a) the problem of responsibility for credit, which was by far the most important; and
- (b) the problem of marginal or inadequate handling commissions on assigned accounts.

## CHAPTER 38. CREDIT

### (1) Responsibility for Credit

The average net income of a bulk agent is, by comparison, a bit higher than the income of a rural service station operator. However the credit risks involved in the bulk agent's business are much greater than those of the service station operator and are probably higher than the credit risks in any other comparable business.

The bulk agent or farm dealer is responsible for the credit on all sales he makes. In effect the agent or dealer guarantees payment of every customer's account and indemnifies the oil company against any credit loss. According to the statistics, compiled during the Gasoline Marketing Enquiry survey, 82% of all merchandise sold by them is sold on credit. A large portion of this merchandise is ordered by a phone call from the buyer. When the merchandise is delivered, particularly with the farm trade, it is highly unlikely that the customer would be home to pay his bill. He is usually off somewhere working.

During this same survey, it was learned that the average total amount of credit granted per agent in one year was \$54,100.00. This amount is equal to nearly eight times the net income of the agent for the same period. (See Chart 109).

It is impossible for bulk agents and farm dealers from their own resources, to advance credit to their customers in these large amounts. In order to encourage and assist agents to extend credit to customers buying products of the oil company, oil companies make advances of product or extend credit to the agents to assist them to "acquire" product. Whether the product is "consigned" to the agent or "sold" to the agent is immaterial, the purpose is to enable the agent to make credit sales. Security is taken for these advances or loans by taking an assignment on the agent's accounts receivable, or in some cases, the oil companies own the accounts receivable outright. No matter what forms are used, the results are the same:—

- (a) the products of the oil company are sold,
- (b) the agent receives a commission, and
- (c) credit losses are borne by the agent.

The size of these advances or loans vary with agents, companies and communities. The Gasoline Marketing Enquiry survey found individual advances or loans of all sizes from \$3,500.00 up to as high as \$114,000.00.

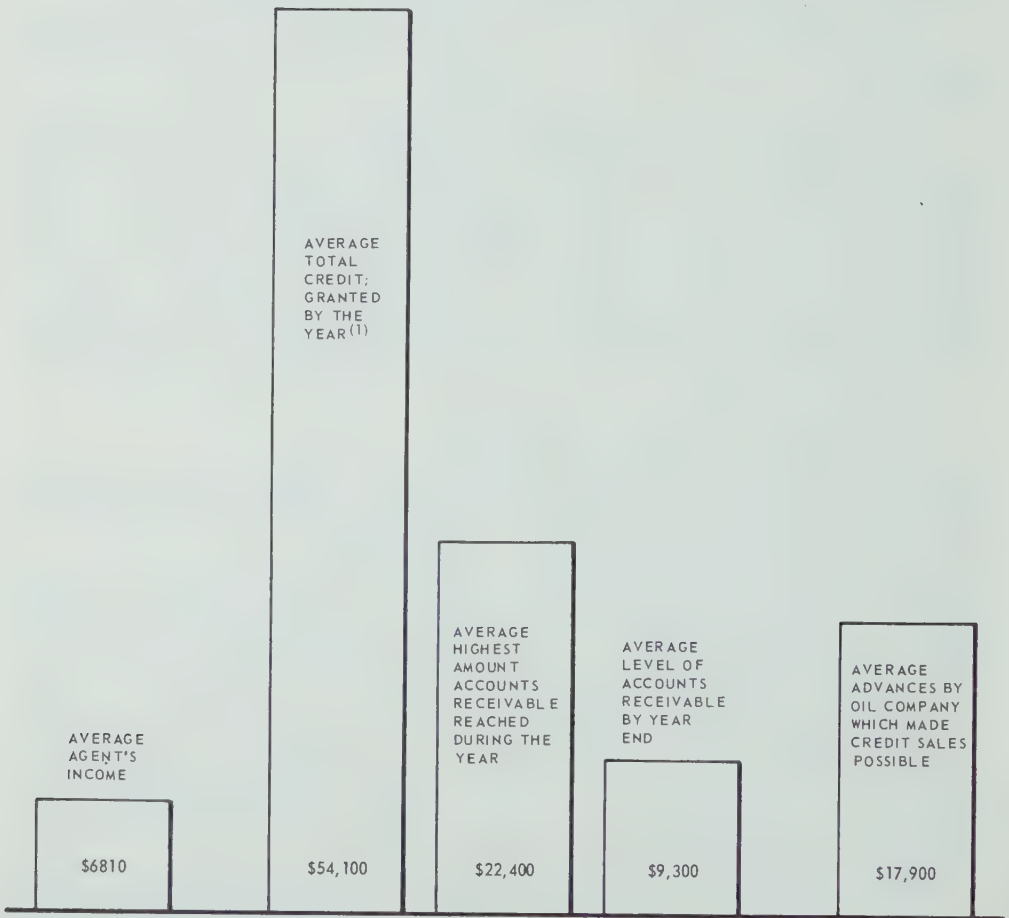
The problems created for agents, under these conditions, are not easily handled. Oil companies appoint agents, with little or no business experience, expose them to this easy access to credit, and then pressure them for sales. Credit is the inducement suggested and used to increase volume. The result is that many of them become trapped with large accounts receivable for which they are completely responsible. In order that they may leave the agency and enter some other occupation, agents must pay off the debts owing by customers who fail to pay for oil company products. This they cannot do and many agents find themselves ensnared by the system under which they operate. Income of the agents is reduced because of bad debt losses as well. As credit granted is eight times average income the bad debts can easily exceed total income.

The credit situation will likely get worse. Some oil companies have adopted the policy of setting up farm dealers in conjunction with their service stations. This increase in number of outlets will tend to decrease volume per outlet, and agents will attempt to retain volume by enticing customers with greater credit privileges.

One oil company is using its bulk agents to enter the propane sales field with a similar type of credit policy. Again the propane business is a credit business and agents are responsible for all credit losses. Two oil companies are now in the fertilizer business. Fertilizer which is sold to farmers on credit is a high dollar volume business and again the agent is responsible for credit losses. Coupled with this are the policies of the oil companies who offer fertilizer for sale to farmers in the winter or spring under terms such as no money down, 60% to be paid by the end of June and the balance to be paid by the end of

CREDIT PROBLEMBULK AGENTS AND FARM DEALERS — ALBERTA 1965AGENT'S  
INCOME

AGENT'S RISK

OIL COMPANY  
ENCOURAGEMENT

(1) FOR GASOLINE SALES ONLY. DOES NOT INCLUDE FERTILIZER OR TBA.

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

October. It would appear that customers would be foolish not to buy on credit. The oil companies fix and advertise the terms, but the agent is responsible for the credit losses.

A bulk agent or farm dealer who sells petroleum products and fertilizer to farmers would inevitably face losses equal to several times his annual income in the event of one or two crop failures in his area.

## **(2) Bulk Station Case Histories**

A bulk agent isn't simply a statistic in oil company records like so many gallons of gasoline. No two bulk agents are alike. Each is an individual human being with talents, faults, hopes and fears. The businesses of several of these bulk agents were examined by our interviewers. It will help in the understanding of their problems to examine the case histories of two of these persons.

### **(a) Mr. "X", Credit Problem**

After working for six years as an employee in an oil company bulk station, Mr. "X" became agent for the same company in a brand new bulk station. In 1965, after eleven and one-half years in business he had increased his volume to a point where he was now doing 85,000 gallons of assigned and 290,000 gallons of unassigned business. He was paid a commission of 1c per gallon on the assigned and 2.9c per gallon on the unassigned. From this he was able to show a net profit of \$5,017.00.

He now (in January when accounts receivable are lower for the year) owes \$5,200 to the oil company for gas and oil and his accounts receivable are \$6,200. He actually has accounts receivable on his books equal to one and one-quarter years' net income. His accounts receivable have been as high as \$35,000 (or five years' income) and he has owed the oil company as much as \$32,000.

A few months ago Mr. "X" decided that he had had enough of this business and was going to look for another job. He was unable to raise enough money to pay off the oil company and had to stay on as their agent.

Fertilizer sales have increased the credit problems for this man. His oil company has a plan whereby a farmer can buy his fertilizer in the winter or spring, pay 60% of the bill in mid-summer and the balance in the fall. The agent is responsible for this money if it is unpaid after this date.

A customer came in the other day to place an order for \$9,000 worth of fertilizer on this type of deal. Mr. "X" could have earned over \$700 in commissions on this sale but he turned it down. He was afraid that if he were to accept it and the farmer got into trouble with a crop failure this one account could wipe out his net income for nearly two years.

His oil company applies constant 'pressure for increased sales in both petroleum products and fertilizers. Mr. "X" knows all the farmers in the area personally and claims that it is impossible to increase volume without getting involved with too much risk on credit. He feels now that he is caught in a position where he cannot improve his lot nor can he move on to something that would be better.

To collect his accounts receivable he has to stay in business and continue extending credit. To stop he requires cash equal to his accounts receivable which is practically impossible for him to arrange.

### **(b) Mr. "Y", Credit Problem**

Mr. "Y" had several years' experience as a bulk station employee and three years' experience as a bulk station manager when he applied for the position as bulk agent for another oil company. This oil company was building a new bulk station and Mr. "Y" felt that this would be a good opportunity to get into business for himself. His application was accepted so he resigned his position and started to work.

In order to handle the business he purchased \$21,000 worth of equipment. He had \$9,000 of his own and borrowed the balance from the oil company. His wife, who had been employed as a bookkeeper in a garage, left her job and came to help in the business.



During the first four months of operation he sold 120,000 gallons of gasoline to assigned accounts and 35,000 gallons to unassigned accounts. On assigned business he was paid a commission of  $\frac{1}{2}$ c per gallon and on the unassigned 3c per gallon. This works out to a total of \$1,650. From this amount he had to pay the expenses usual to a business of this type.

At the end of the four month period he owed the oil company \$12,000 on the equipment and \$5,000 for gas and oil. His accounts receivable were up to \$3,500, or over double his total commissions.

Mr. "Y" in comparing his opening balance sheet with his current balance found the following:

Opening Balance Sheet		Current Balance Sheet	
<b>Assets</b>		<b>Assets</b>	
Equipment at cost .....	\$21,000	Equip. at cost ....	\$21,000
		Less depreciation .....	5,000
		Accounts Rec. ....	3,500
			<u>19,500</u>
<b>Liabilities</b>		<b>Liabilities</b>	
Loan on equip. ....	12,000	Loan on equip. ....	12,000
		Gas and oil .....	5,000
			<u>17,000</u>
Equity to start .....	<u>\$ 9,000</u>	Current Equity .....	<u>\$ 2,500</u>

You will see from this that Mr. "Y" 's assets are dwindling. His assets are decreasing and his liabilities are increasing. It may not be reasonable to charge the entire \$5,000 depreciation in four months, but on the other hand he would have to depreciate his equipment this much if he were to sell it. However, the trend is apparent. The depreciation for the first three or four years will eat up the value of the equipment but the operator will still have a debt he must pay. As his business increases so will his accounts receivable and his accounts payable to the oil company. The agent is working himself into a position where, because of debt, he won't be able to afford to quit. Termination requires a larger cash payment to the oil company than he can readily raise and an almost certain loss.

### (3) Solution Proposed for Credit Problem

A bank does not require its Branch Manager to personally guarantee all loans made to customers of that Branch. A Finance Company does not require its Branch Manager to personally guarantee all loans made to customers of his Branch. An automobile dealer doesn't require his commission salesmen to personally guarantee the payments of every purchaser to whom he sells a car.

The Committee considers that it is unreasonable for an oil company to require in effect that its bulk agent or farm dealer should pay for or guarantee payment for petroleum products delivered to farmers or other customers who fail to make their payments. The responsibility imposed on the bulk agent or farm dealer for credit granted appears to be equivalent to an undertaking to indemnify and hold the oil company harmless from any credit losses.

Oil companies may point out that they "sell" product to their agent who "resells" to his customer.

The bank or finance company, when it loans money, doesn't go through the fiction of loaning the money first to its manager so that he personally has to run the credit risk of loaning it to the borrower. Similarly an automobile dealer, when he sells a car, doesn't go through the fiction of selling the car to his commissioned salesman first so that the salesman personally has to run the credit risk of selling the car to the purchaser.

The relationship of the oil company to its bulk agent or farm dealer is essentially one of agency. The agent distributes product produced and supplied by his principal from premises owned by his principal in accordance with instructions received from his principal, —and is remunerated by a commission.

The mere fact that the company invoices the agent for the product doesn't change the fact that it is the company which enables the credit to be extended by providing its agent with product which he doesn't pay for immediately.

Banks succeed in collecting a reasonable percentage of their loans even though their managers have no personal financial responsibility for such loans. The finance companies also collect the monies they loan without involving their managers in any personal liability. Automobile dealers collect for cars sold by their commissioned salesmen without placing any personal liability on the salesman to pay for the car if the purchaser fails to do so.

The Committee considers that the oil companies should similarly assume the credit risks of selling their petroleum products on time and that bulk agents and farm dealers should have no personal responsibility for the debts of a purchaser of petroleum products who fails to pay for them.

The bulk agent or farm dealer receives for selling to his own customers a "sales Commission" as remuneration to compensate him for receiving, storing and delivering the product and for selling it. In the case of a sale which subsequently turns out to be an uncollectable account receivable, the agent has performed the services of receiving, storing and delivering and has earned some payment for this service. Although he has also made the sale, it may be reasonable that he should suffer some penalty for his bad credit judgment in respect of this sale. However, in the opinion of the Committee the penalty should not exceed the agents expected commission for the making of that particular sale.

The oil company should be prohibited by law from claiming payment from its bulk agent or farm dealer for the total value of product delivered to the bad account. Anything in his contract with the oil company that requires him to pay such accounts or to guarantee payment or to indemnify the oil company against credit losses or other arrangements or undertakings having a similar effect should be declared invalid and unenforceable.

The maximum oil company claim against the bulk agent or farm dealer in respect of any bad debt should be limited to a claim for the recovery of a percentage (50% is suggested) of the sales commission earned by the agent or dealer in respect of that sale.

The oil company makes it possible for the credit to be extended; it is the oil company which gains most from the sale of its product, and it should assume the risk of credit losses.

## CHAPTER 39. HANDLING COMMISSIONS

### (1) Comparison of Commissions and Costs

Many bulk agents complain that their commission rates have not been increased for years. They feel that commission rates should increase as the costs of doing business go up. Costs of labour and equipment have been rising steadily and agents find that increased volume is not adequate to meet these rising costs. Although gasoline volume in the province has gone up each year, there are also many new outlets so the volume per outlet is not increasing in many cases.

An examination of financial statements of bulk agents suggests that in some cases handling commissions don't cover the cost of handling and accordingly deliveries are being subsidized by the agent's earnings from sales commissions. As explained earlier, handling commissions remunerate agents for receiving, storing and distributing products to customers who purchased from the oil company while sales commissions remunerate the agent for receiving, storing, selling and delivering to his own customers.

The cost of delivering is the largest single cost incurred by the agent in servicing customers of the oil company although he does have additional costs in connection with receiving, storing and overhead.

Using figures provided by the oil companies and verified by Gasoline Marketing Enquiry interviews with bulk agents, handling commissions average 1.28c per gallon while sales commissions average 2.68c per gallon. The agents' average cost of delivering this gasoline is (according to oil company figures and not including costs of receiving, unloading, storing, accounting, advertising, administration or overhead and not including profit for the agent) 1.46c per gallon so he loses 0.18c on each gallon he just handles while he makes something less than 1.22c per gallon on each gallon he is able to sell. In effect it appears that the bulk agent, from his earnings on sales to his farm consumer business, is subsidizing the oil company by paying part of the cost of supplying and delivering to its service stations and industrial and commercial customers.

### (2) Oil Company Calculations of Delivery Costs

During the course of the Gasoline Marketing Enquiry, an attempt was made to determine the cost to bulk agents of delivering gasoline. Each oil company was asked to calculate delivery costs on the following basis.

"Having regard to the many variables such as tank truck capacity, tank truck investment, annual volume of deliveries by the tank truck, nature of the area and the market served, etc., do three calculations to illustrate the range of delivery costs per gallon including cost of loading and unloading incurred by your bulk operators and farm distributors. Select three (3) of your bulk outlets as follows:

- (a) One with a low volume in a poor sparsely populated area:
- (b) One with average volume in an area with an average population density and conditions:
- (c) One with a high volume in an unusually favourable situation.

Outline the relevant facts existing in each of these outlets and for each calculate the delivery cost per gallon of the particular bulk operator or farm distributor as the case may be, showing particulars of your calculations."

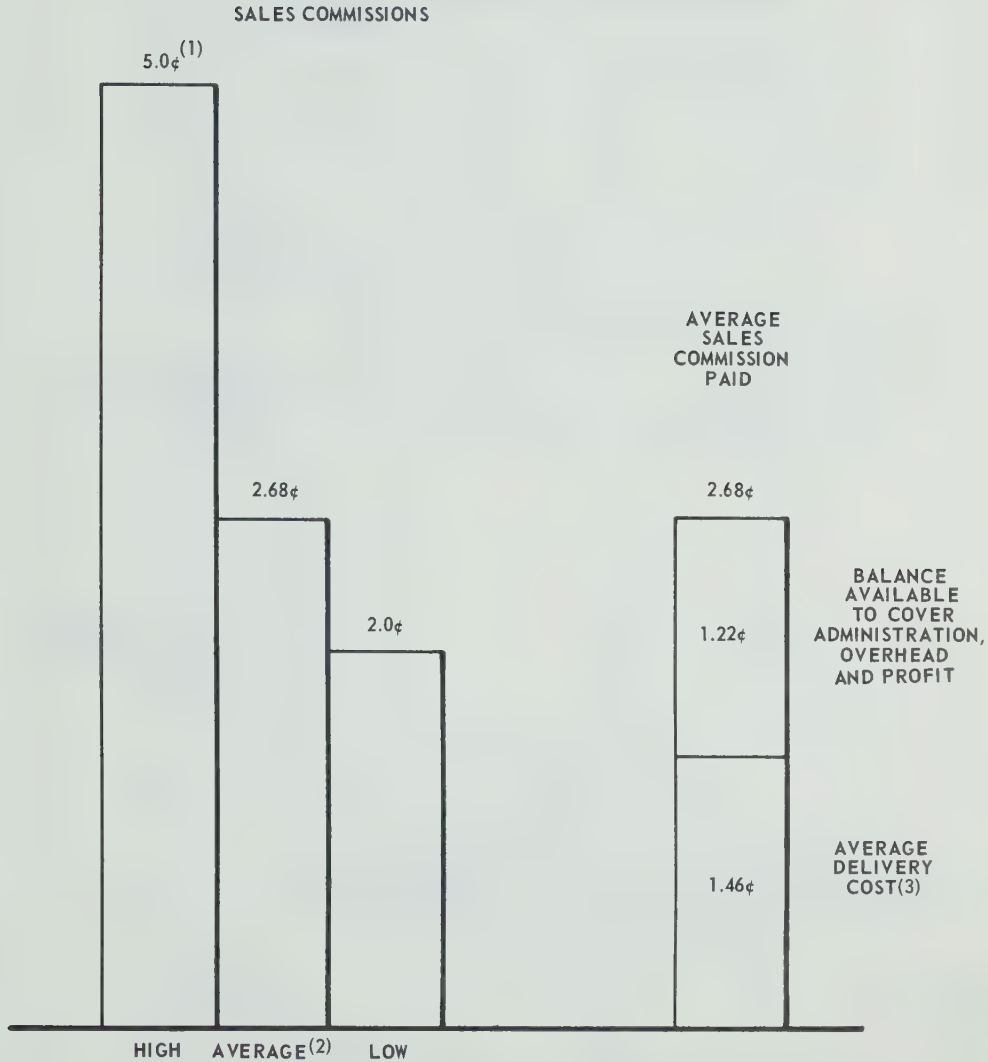
Calculations by the various oil companies are given here, together with the rates of commissions paid for handling and selling gasoline.

"Handling commission" refers to the commission paid to an agent for receiving, storing and delivering gasoline to oil company customers as directed by the oil company.

"Sales commission" refers to the commission paid to an agent for receiving, storing, selling and, in most cases, delivering products to the agent's own customer.

# SALES COMMISSIONS

PAID BY OIL COMPANIES TO BULK AGENTS AND FARM DEALERS  
COMPARED WITH COST OF SALES - ALBERTA 1965



(1) ALL FIGURES ARE CENTS PER GALLON  
(2) WEIGHTED AVERAGE OF THE MOST COMMON RATE  
(3) DELIVERY COST IS THE AVERAGE COST OF DELIVERY PER GALLON FOR AN AVERAGE OUTLET AS CALCULATED BY THE OIL COMPANIES, AND DOES NOT INCLUDE COSTS OF RECEIVING, UNLOADING, ACCOUNTING, ADVERTISING ADMINISTRATION, OVERHEAD OR PROFIT.

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

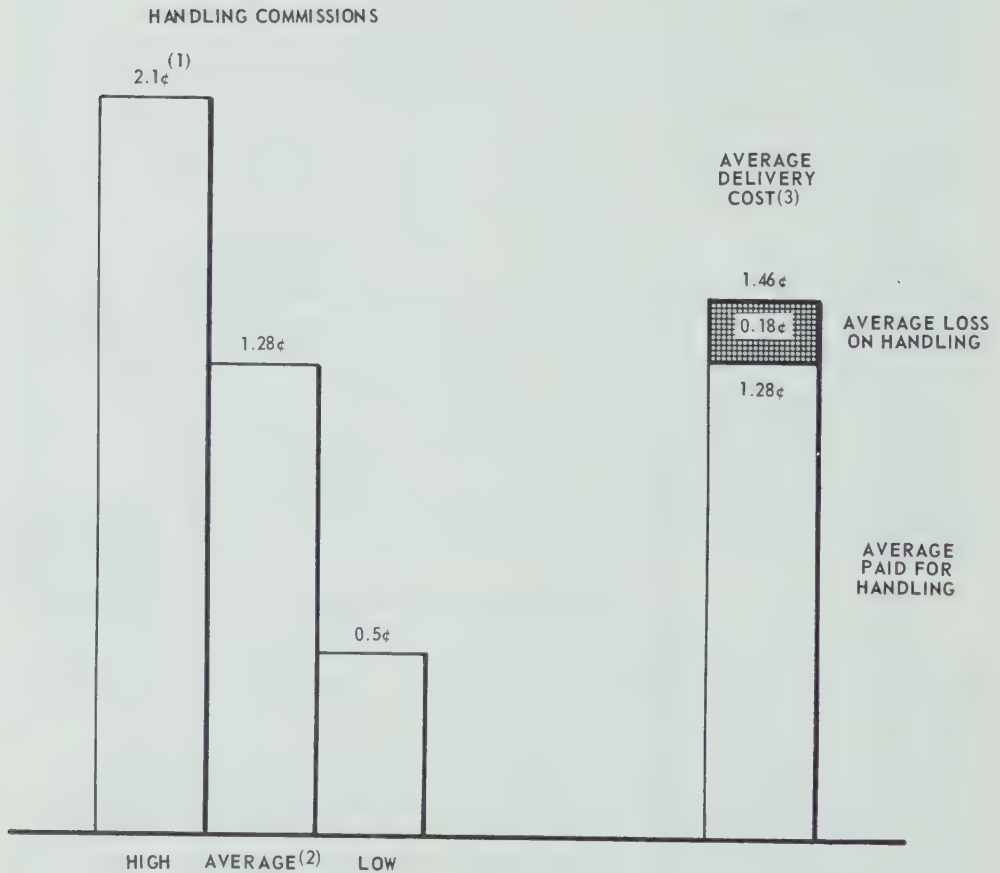


CHART 111

# HANDLING COMMISSIONS

PAID BY OIL COMPANIES TO BULK AGENTS

COMPARED WITH COST OF HANDLING - ALBERTA 1965



(1) ALL FIGURES ARE CENTS PER GALLON

(2) WEIGHTED AVERAGE OF THE MOST COMMON RATE

(3) DELIVERY COST IS THE AVERAGE COST OF DELIVERY PER GALLON FOR AN AVERAGE OUTLET AS CALCULATED BY THE OIL COMPANIES, AND DOES NOT INCLUDE COSTS OF RECEIVING, UNLOADING, ACCOUNTING, ADVERTISING ADMINISTRATION, OVERHEAD, OR PROFIT.

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

**Calculations of Oil Company No. 1**

**(a) LOW VOLUME IN A POOR, SPARSELY POPULATED AREA**

- Assumptions: (1) Market demand within the area is 2 million gallons per year (1,600 gallons per square mile).  
(2) Delivery equipment consists of one 1,000 gallon truck which costs \$7,000.  
(3) One truck load serves about 5 customers and the vehicle travels about 25 miles on an average trip.

**Estimated Sales**

Market Share .....	6%	8%	10%
Sales '000 gallons .....	120	160	200

**Cost of Delivery/Gallon**

Labour .....	.79c	.79c	.79c
Fuel & Lubrication .....	.17	.17	.17
Repairs and Maintenance .....	.07	.07	.07
Depreciation .....	.82	.61	.49
Licenses .....	.13	.10	.08
Insurance .....	.20	.15	.12
<b>TOTAL .....</b>	<b>2.18c</b>	<b>1.89c</b>	<b>1.72c</b>

**(b) AVERAGE VOLUME IN AN AREA WITH AN AVERAGE POPULATION DENSITY AND CONDITIONS**

- Assumptions: (1) Market demand within the area is 3 million gallons per year (2,400 gallons per square mile).  
(2) Delivery equipment consists of one 1,500 gallon truck which costs \$10,300.  
(3) One truck load serves about 6 customers and the vehicle travels about 25 miles on an average trip.

**Estimated Sales**

Market Share .....	6%	8%	10%
Sales '000 Gals. ....	180	240	300

**Cost of Delivery/Gallon**

Labour .....	.53c	.53c	.53c
Fuel & Lubrication .....	.13	.13	.13
Repairs & Maintenance .....	.06	.06	.06
Depreciation .....	.78	.58	.47
Licenses .....	.12	.09	.07
Insurance .....	.14	.11	.08
<b>TOTAL .....</b>	<b>1.76c</b>	<b>1.50c</b>	<b>1.34c</b>

**(c) HIGH VOLUME, UNUSUALLY FAVOURABLE SITUATION**

- Assumptions: (1) Market demand within the area is 4 million gallons per year (3,200 gallons per square mile).  
(2) Delivery equipment consists of one 1,800 gallon truck which costs \$12,000.  
(3) One truck load serves about 6 customers and the vehicle travels about 25 miles on an average trip.

**Estimated Sales**

Market Share .....	6%	8%	10%
Sales '000 Gals. ....	240	320	400

**Cost of Delivery/Gallon**

Labour .....	.44c	.44c	.44c
Fuel & Lubrication .....	.13	.13	.13
Repairs & Maintenance .....	.06	.06	.06
Depreciation .....	.70	.53	.42
Licenses .....	.10	.08	.06
Insurance .....	.10	.07	.06
<b>TOTAL .....</b>	<b>1.53c</b>	<b>1.31c</b>	<b>1.17c</b>

**Commission Rates in Certs per Gallon**

	Most Common Rate	Ranges of Rates	
		From	To
Handling Commission .....	1.5c	1c	2c
Sales Commission .....	3c	3c	3c

## Calculations of Oil Company No. 2

"We have outlined below, the estimated delivery expense for distributorships which would fall within the categories outlined in Sections (a), (b) and (c) of this question. These are not actual expenses from specific points, but are based on the general expense levels encountered during the early stages of a program of distributor financial counselling which is still in the process of development.

While we believe the figures to be representative of the conditions requested, we feel that they tend, if anything, to understate the differences between the low volume outlet in a poor, sparsely populated area, and the high volume outlet in an unusually favourable situation.

A cost per gallon for pure truck operation has been calculated. In addition, an approximate amount for driver's time at \$300 per month has been added in to give a final total cost and cost per gallon. It should be noted that the labour allowance, particularly in case (a) and case (b), will represent the distributor's own time spent as driver of the delivery unit. It is almost impossible to give an accurate labour estimate, but we have included this figure on the very arbitrary base of one half man year for case (a), one man year for case (b) and one and one-half man years for case (c). This will undoubtedly vary over a wide range.

### ESTIMATED DELIVERY EXPENSE FARM DISTRIBUTORS — ALBERTA

	Case (a)	Case (b)	Case (c)
Approximate miles driven .....	9,000	12,000	18,000
Approximate gallonage .....	<u>125,000</u>	<u>250,000</u>	<u>400,000</u>

#### Truck Costs

Running Costs @ 12c per mile

Gasoline, Oil & Repairs .....	1,080.00	1,440.00	2,160.00
Depreciation .....	500.00	750.00	1,000.00
Insurance .....	100.00	100.00	100.00
Licences .....	<u>150.00</u>	<u>150.00</u>	<u>150.00</u>
Total Truck Costs .....	1,830.00	2,440.00	3,410.00
*Labour .....	<u>1,800.00</u>	<u>3,600.00</u>	<u>5,400.00</u>
TOTAL COST .....	<u>\$3,630.00</u>	<u>\$6,040.00</u>	<u>\$8,810.00</u>

	Case (a)	Case (b)	Case (c)
Truck cost per gallon .....	1.46c	.98c	.85c
Total cost per gallon .....	2.91c	2.41c	2.20c

\*Labour costs for cases (a) and (b) would be the distributor himself but would only partially represent distributor's allocation of his own time in case (c).

#### Commission Rates in Cents per Gallon

	Most Common Rate	Ranges of Rates From To	
Handling Commission .....	1c	.5c	1.0c
Sales Commission .....	3.0c	2.5c	3.0c

### Calculations of Oil Company No. 3

(a) Agency Volume .....	198,131 gallons
<b>Delivery Costs per Gallon</b>	
*Fixed Costs .....	.31
**Variable Costs .....	.88
***Salary Costs .....	.70
<b>Total Cost per Gallon .....</b>	<b>1.89c</b>

(b) Agency Volume .....	593,100 gallons
<b>Delivery Costs per Gallon</b>	
*Fixed Costs .....	.34
Variable Costs .....	.47
Salary Costs .....	.60
<b>Total Cost per Gallon .....</b>	<b>1.41c</b>

(c) Agency Volume .....	1,474,076 gallons
<b>Delivery Costs per Gallon</b>	
Fixed Costs .....	.18
Variable Costs .....	.43
Salary Costs .....	.45
<b>Total Cost per Gallon .....</b>	<b>1.06c</b>

\*License, Insurance, Taxes, Depreciation.

\*\*Power, Heat, Office & Supplies, Telephone, Advertising, Truck gas & oil, Maintenance & Repair, Tires, Batteries, Accessories, Miscellaneous.

\*\*\*Driver, Office and Plant.

### Commission Rates in Cents per Gallon

	Most Common Rate	Ranges of Rates From To	
Handling Commission .....	1.4c	.8c	2.1c
Sales Commission .....	2.7c	2.3c	3.4c

### Calculations of Oil Company No. 4

(a) Annual delivered gallons: .....	136,000
Make and size of truck: .....	1949 Dodge - 2 ton
Tank size: .....	900 gallons
Average delivery: .....	125 gallons
Annual mileage .....	4,560
<b>Truck Expense</b>	
Licenses .....	\$111.00
Insurance .....	61.50
Tires: Repairs & Replacements .....	25.00
Repairs .....	50.00
Gas, Oil & Lubrication .....	223.00
Depreciation .....	None taken
<b>Total Truck Expense .....</b>	<b>\$470.50</b>
Plant loading time: 25 gallons per minute .....	91 hours
Truck loading time: 20 gallons per minute .....	113 hours
Driving time: 4,560 @ 30 m.p.h. ....	152 hours
<b>Total Delivery Hours .....</b>	<b>356 hours</b>
Labour at say \$2.00 per hour .....	\$ 712.00
<b>Total Cost .....</b>	<b>1,182.50</b>
<b>Cost per gallon .....</b>	<b>\$ 0.0087</b>



(b) Annual delivered gallons: .....	366,000
Make and size of truck: .....	G.M.C. - 3 ton
Tank size: .....	1300 gallons
Average delivery: .....	250
Annual Mileage: .....	10,000
Truck Expense	
Licenses: .....	\$ 201.00
Insurance .....	85.00
Tires: Repairs & Replacements .....	200.00
Repairs .....	150.00
Gas, Oil & Lubrication .....	523.00
Depreciation .....	500.00
Total Truck Expense .....	<u>\$1,659.00</u>
Plant loading time: 50 gallons per minute .....	122 hours
Truck loading time: 20 gallons per minute .....	305 hours
Driving time: 10,000 @ 30 m.p.h. ....	333 hours
Total Delivery Hours .....	760 hours
Labour at say \$2.00 per hour .....	\$1,520.00
Total Cost .....	3,179.00
Cost per gallon .....	\$0.0087
(c) Annual delivered gallons .....	998,000 gallons
Make and size of truck .....	1967 Dodge - 3 ton
Tank size .....	1300 gallons
Average delivery .....	500
Annual mileage .....	40,000
Truck expense	
Licenses .....	\$ 211.00
Insurance .....	156.00
Tires: Repairs & Replacements .....	700.00
Repairs .....	400.00
Gas, Oil & Lubrication .....	1,560.00
Depreciation .....	1,200.00
Total Truck expense .....	<u>\$4,227.00</u>
Plant loading time: 50 gallons per minute .....	333 hours
Truck loading time: 20 gallons per minute .....	832 hours
Driving time: 4,000 @ 30 m.p.h. ....	1,333 hours
Total Delivery Hours .....	2,498 hours
Labour at say \$2.00 per hour .....	\$4,996.00
Total Cost .....	9,223.00
Cost per gallon .....	\$0.0092

#### Commission Rates per Gallon in Cents

	Most Common Ranges of Rates		
	Rate	From	To
Handling Commission .....	1.5c	1c	2c
Sales Commission .....	2.5c	2.5c	3c

## Calculations of Oil Company No. 5

DELIVERY COSTS — TYPICAL AGENCY (350,000 gallons, 3 ton truck & 1,500 gallon tank equipped with pump and meter worth \$8,610.00 in total)

Wages 12 x \$250 .....	\$3,000
Licensing .....	246
Insurance .....	135
Yearly Cost truck (average life 6 years) per year .....	735 (\$590 trade in)
Yearly Cost pump & meter (average life 10 years) .....	51
Yearly Cost tank (average life 10 years) .....	310
Fuel Oil & Grease, etc. (7,000 miles) .....	335
Tires .....	100
Miscellaneous Expense .....	180
	<u>\$5,092</u>

Cost Per Gallon  $\frac{350,000}{5,092} = 1.45\text{c}$  per gallon

### Depreciation Based on the Following Costs

3 ton truck .....	\$5,000.00
Pump & Meter .....	510.00 (includes installation)
1500 gal. 4-compt. tank .....	3,100.00
	<u>\$8,610.00</u>

\*Fuel Oil, greasing, miscellaneous expense and tire costs are based on average loads of 1250 gallons and on round trip mileage of 25.

### Commission Rates

	Most Common Rate	Ranges of Rates From To	
Handling Commission .....	1c	.5c	1.5c
Sales Commission .....	2.7c	2.7c	4c

Oil Companies Nos. 6 and 7 claimed that they could not complete these calculations. Their replies were as follows:

#### Oil Company No. 6

"Unable to supply as commission agents are independent business men and their records are not available to us".

#### Oil Company No. 7

"We are unable to calculate the delivery costs as we do not have any records from which to derive this information".

Oil Company No. 8 — said that they had a survey underway and would be able to answer at a later date.

Oil Companies Nos. 9, 10 and 11 — reported that they did not have bulk stations in operation in Alberta during 1965.

Table 164

### Comparison of Delivery Costs and Handling Commissions

Company	Delivery Cost			Handling Commissions		
	Low Vol.	Av. Vol.	High Vol.	Most Common Rate	Ranges of Rates From To	
(1)	2.18	1.89	1.72			
	1.76	1.50	1.34	1.5c	1.0c	2.0c
	1.53	1.31	1.17			
(2)	2.91	2.41	2.20	1.0c	0.5c	1.0c
(3)	1.89	1.41	1.06	1.4c	0.8c	2.1c
(4)	.87	.87	.92	1.5c	1.0c	2.0c
(5)		1.45		1.0c	0.5c	1.5c

### (3) Conclusions Respecting Commissions

As a generalization respecting "handling" commissions:—

- (a) the low rate in the range for most companies is lower than the lowest delivery costs calculated by that company,
- (b) the high rate in the range for most companies is either below or about the same as the highest delivery cost calculated by that company,
- (c) the most common rate for most companies is either below or about the same as the delivery cost for an average volume outlet as calculated by that company.

In the calculations of most companies the labor costs assumed were at a minimum. At the very best these figures indicate that handling commissions barely meet delivery costs of bulk agents, paying a minimum amount for labor and leaving nothing for profit.

The Committee has had numerous opportunities to compare oil company estimates of the income and costs of particular service stations or bulk stations, with the books of that station showing its actual income and costs. Almost invariably oil company estimates of income exceeded actual income, and oil company estimates of costs were less than actual costs. Naturally their estimates of cost did not include some costs actually incurred, and the average operator was rarely as efficient as the oil company estimates assumed.

In the opinion of the Committee there are many cases where handling commissions paid are inadequate to cover the costs actually and necessarily incurred by bulk agents in delivery to oil company customers.

An agent may not have the knowledge or business experience required to make an accurate calculation of his own costs and the oil company may have a better understanding of his costs than the agent has. The agent is dependent on the company for his job security and is anxious to please. Bargaining is obviously unequal in this relationship and the company owes a duty to the agent not to take advantage of his lack of knowledge or business experience.

The oil company in bidding on competitive commercial or industrial consumer business, or in trying to reduce its marketing costs sees handling commissions as one element of its costs that may be held down. However the Committee believes there is a responsibility on the company to see that its agents get reasonable compensation for the service they perform and that the company should not take advantage of its relationship with an agent to the point where the agent is induced to use his sales commission to subsidize deliveries to oil company customers, even with the apparent agreement of the agent.

The Committee recommends that the companies review and increase their handling commissions to cover costs and provide reasonable remuneration for the handling and distribution service performed by bulk agents under the present conditions. Sales commissions should be similarly reviewed.

**PART 10**  
**RURAL OUTLETS**

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## PART 10

### RURAL OUTLETS

#### CHAPTER 40. SERVICE STATION PROBLEMS ARISING FROM PURPLE GASOLINE

##### **(1) Special Problems of Rural Outlets**

Rural gasoline outlets have some special problems which are peculiar to them, and they do not have some of the problems commonly experienced by urban operators.

(1) The rural economy is changing. Many small communities which were required in horse and buggy days have ceased to have a reason for existing due to improvements in transportation, communication and technology. To the extent that a gasoline outlet in such a dying community has the same problems as other businesses in that community, the Committee has regarded such problems as irrelevant to the scope of its inquiry.

(2) The government action in 1958 permitting farmers to use purple gasoline on highways had a serious adverse effect on the gasoline volume of rural service stations which are not permitted to sell purple gas, and had a correspondingly beneficial effect on the volume of rural bulk agencies. The tax exemption was a matter of deliberate government policy. Its effect in transferring business from one group of businessmen to another appears to be outside the scope of the Committee's inquiry.

(3) In rural areas with sparse populations there are fewer outlets classified as "service stations" and more outlets classified as "other businesses with some gasoline sales". There are accordingly fewer "lessees" and more "owners". The oil company representatives have larger territories, more outlets with less volume and their calls are less frequent. In an outlet with small volume the oil company is less interested in interfering with the operator's freedom of decision, and the operator is more independent because most of his income comes from his "other business".

##### **(2) The Effect on Rural Outlets of Purple Gasoline on Highways**

Rural service station operators and retailers emphasized a problem to the Committee's interviewers which had a great impact on the rural station but which was of only minor concern to urban service stations.

A change in the Fuel Oil Tax Act permitted farm trucks to use purple gas on highways.

The Fuel Oil Tax Act prohibits the sale of purple gas through service station pumps or the placing of purple gas directly into the fuel tanks of vehicles. When the use of purple gas in farm trucks on the highways became legal therefore, farmers switched their purchases from service stations and garage to bulk stations.

The rural service station operator complained:

- (a) that this had resulted in a very considerable loss of gasoline volume to his station, and a corresponding increase in gasoline volume in bulk stations;
- (b) that a considerable number of people were using purple gas on highways illegally which still further reduced the rural operators gasoline volume,
- (c) that the former customer who now uses purple gasoline no longer comes to the service station, so in addition to the loss of gasoline sales he loses sales of tires, batteries, accessories, repair parts and repair labor.

The reports to the interviewers indicated that modern half-ton trucks are almost as comfortable for many highway uses as an automobile, that many farmers were using these half-ton trucks for purposes where they previously used an automobile, and that many persons who were not intended to be exempt from fuel tax were buying half-ton trucks, succeeding in getting "F licenses" and using purple gas on highways.

Although these were problems affecting the marketing of gasoline, the Committee considered that some aspects of these problems were not part of its concern.

If the legislature in its judgement grants an exemption from tax and if such an exemption results in a transfer of business from one type of outlet to another type of outlet, the Committee considered that its concern should be simply to report the facts disclosed by its investigation.

However, if retailers of gasoline were being adversely affected by substantial evasion of the spirit and intention of the limited exemption by the Fuel Oil Tax Act, these would be matters affecting both the marketing of gasoline, and affecting the collection of public revenue.

On this aspect of the matter the Committee considered it should report its findings and make recommendations for consideration.

### **(3) The laws Taxing and Exempting Gasoline**

To understand the problem, some knowledge of the laws affecting the taxing of gasoline is necessary.

Purple motor grade gasoline, sold in Alberta, is "Regular" gasoline coloured with a purple dye to indicate that no fuel oil tax has been paid on this gasoline to the Provincial Government. In order to understand the use and mis-use of purple gasoline it is necessary to refer to three separate Government of Alberta Acts and the regulations pertaining thereto. These acts are administered by three different government departments and are enforced by a fourth. This situation has a tendency to divide responsibility and makes effective enforcement difficult. Any change or improvement requires consultation with three other departments.

The Acts referred to are:

- (a) The Fuel Oil Licensing Act, Chapter 124 R.S.A. 1955 administered by the Department of Industry and Development;
- (b) The Fuel Oil Tax Act, Chapter 125 R.S.A. 1955 administered by the Department of Provincial Secretary;
- (c) The Public Service Vehicles Act, Chapter 265 R.S.A. 1955 administered by the Department of Highways.

The duty of enforcement is shared by the R.C.M.P. and other police departments and the Inspection Services Branch of the Attorney General's Department.

The definition of "fuel oil" for purposes of these Acts includes gasolines.

**The Fuel Oil Licensing Act** provides for the licensing of fuel oil dealers who are made responsible for collection of the fuel oil tax.

**The Fuel Oil Tax Act** imposes a tax on the purchasers of fuel oil, authorizes the coloring of fuel oils with different colors for different uses, and exempts fuel oil for certain uses from tax. The principal exemptions are:

- (a) agricultural uses,
- (b) industrial uses,
- (c) lighting, heating and domestic uses.

**The Public Service Vehicles Act** deals with the licensing of vehicles for different uses, some of which uses are exempt from fuel oil tax.

Accordingly the tax which is levied under one act, is collected by dealers licensed under another act, unless the purchaser gains an exemption under a third act by obtaining a special vehicle license which has the effect of exempting him from tax.

Except in the case of agricultural uses, most exemptions from tax are for uses off the highways which are relatively easy to enforce. However, farm trucks bearing "F" license plates are entitled to use tax exempt gasoline on highways. The incentive of approximately 20c per gallon in saving on gasoline makes an "F" license very desirable. Many people obtain "F" licenses who are not farmers.

This is part of the loophole in the law and its enforcement that rural service station operators complain about. What they say in effect is that persons entitled to buy purple gasoline for one use, then use such gasoline for unauthorized uses. They complain also that persons who do not appear to be farmers succeed in obtaining "F" licenses from the Department of Highways which makes it almost



impossible for the inspection officers in the Attorney General's Department or the taxing officers of the Provincial Secretary's Department to prevent such persons from using tax free gasoline on the highways, for uses which were not intended to be exempt.

Authority to grade gasoline is covered in the Regulations under the Fuel Oil Licensing Act, Section 34A.

"There are hereby established within the Province two grades of gasoline, namely 'Premium' and 'Regular' in accordance with the standards set out in Schedule A attached hereto".

For identification purposes these grades of gasoline are colored different colors as set out in sections 39 and 40 of the same regulations:

Section 39—

"All 'Premium' gasoline shall be coloured red and no gasoline other than premium shall be so coloured."

Section 40—

"All 'Regular' gasoline shall be coloured a distinctive colour, other than red. Such distinctive colour shall be registered with and approved by the Minister and no other gasoline other than 'Regular' shall be so coloured."

Under these regulations 'Premium' gasoline must be colored red while for 'Regular' gasoline no color is mentioned. Gasoline on which a fuel oil tax is levied is colored bronze.

Section 3 (1) of the Fuel Oil Tax Act provides for the taxation on fuel oil and reads as follows:

3. (1) Every purchaser shall pay to the Minister for the use of the Crown in the right of the Province of Alberta, a charge or tax on all fuel oil purchased by him, or delivery of which is received by him

- (a) at the rate of twelve cents a gallon for fuel oil other than diesel fuel, and
- (b) at the rate of fourteen cents a gallon for diesel fuel.

Fuel oil on which no tax is paid is colored purple and such purple gasoline may be sold only for uses which are exempt from tax. Section 18 of the regulations under the Fuel Oil Tax Act deals with these exemptions as follows:

#### **Purple Fuel Oil**

18. (1) Fuel Oil, with the exception of fuel oil known and sold as Premium Gasoline, for agricultural, domestic and industrial purposes, may be colored and identified by a special purple dye for the purpose of coloring fuel oil, and fuel oil so colored shall be sold only:

- (a) to farmers and other persons engaged in farm work in Alberta for consumption in tractors, combines or stationary engines while operated on farms for agricultural purposes or for consumption in a motor vehicle used solely for operation on a farm or for consumption in a tractor while being operated on any highway by a farmer or an employee of a farmer for the purpose of hauling farm produce, farm machinery, coal, firewood, or building material for use on the farm of the farmer or for the purpose of moving the tractor from one location to another;
  - (b) for the operation of motor boats. O.C. 2003/66 Oct. 25/66.
  - (c) for the operation of stationary engines;
  - (d) for the operation of portable engines and tractors when used otherwise than on a public highway;
  - (e) for the operation of tractors, portable engines or construction equipment other than trucks or automobiles while engaged in constructing, repairing or maintaining roads and while engaged in moving from one road construction, repair or maintenance project to another. O.C. 1653/59 October 27/59.
  - (f) to railway companies for use upon their rights-of-way station grounds, yards or terminals;
  - (g) for any industrial purpose otherwise than in the operation of motor vehicles;
  - (h) for the operation of domestic appliances and for lighting and heating;
  - (i) for the operation of farm trucks bearing "F" license plates. O.C. 257/60 February 22/60.
  - (j) for the operation of transit buses owned, controlled and operated by a city and used exclusively within the city. O.C. 490/60 April 8/60.
  - (k) for the operation of farm trucks bearing special farm truck licenses issued under Section 5.4.4. of the Regulations under the Public Service Vehicles Act. O.C. 1161/61, July 26/61.
- (2) Fuel oil so colored and consumed for any of the purposes outlined in subsection (1) is exempt from tax.



The exemptions from the fuel oil tax are quite clearly stated, but particular attention should be paid to clauses (i) and (k) of subsection (1) of Section 18 as quoted above. These clauses permit the use of "tax free" or purple gasoline in trucks which have been licensed with an "F" license. There are no restrictions placed on the use of the vehicle so any vehicle, bearing such license, can be used for any purpose the owner may decide upon and he is entitled to use "tax free" gasoline.

Accordingly the decision as to who may or may not use purple gasoline in such vehicles is not made by the Fuel Oil Tax Branch, but rather by a clerk in the Motor Vehicle Licensing Branch when truck licenses are issued.

The definition of a "commercial vehicle" is covered under Section 2 (c) of the Public Service Vehicle Act which reads:

2(c) "commercial vehicle"

- (i) means a truck, trailer or semi-trailer, except:
  - (a) a truck, trailer or semi-trailer that is a public service vehicle, or
  - (b) a truck, trailer or semi-trailer or a class or classes thereof that the Board after an examination of the circumstances certifies in any year is not to be regulated as a commercial vehicle in that year, and
- (ii) includes:
  - (a) a motor vehicle from which sales are made of goods, wares, merchandise, or commodity, and
  - (b) a motor vehicle by means of which delivery is made of goods, wares, merchandise or commodity to a purchaser or consignee thereof;

Regulation 1.2.1. (under the Public Service Vehicles Act) deals with the issuing of "F" licenses.

1.2.1. All vehicles registered with the Highway Traffic Board under the provisions of the Vehicles and Highway Traffic Act shall be classified either as Public Service or Commercial Vehicles in accordance with the provisions of The Public Service Vehicles Act and shall be issued certificates and plates in accordance with the following subdivisions and for the purposes set out therein;

"F" Commercial Vehicles as defined under 2 (c) of The Public Service Vehicles Act but not including passenger cars, station wagons, suburbans, ranch wagons, window vans, travelalls, or other vehicles of a like nature, owned and operated by farmers, ranchers and market gardeners and used solely in connection with their own farm, ranch or market garden operations, but not in connection with any other line of business in which the owner may be engaged (O.C. 166/59) (O.C. 777/62)

According to these regulations vehicles, licensed with "F" licenses, must be used by their operators, 'solely in connection with their own farm, ranch or market garden operations'. However, an "F" license is also one kind of a commercial license, and all commercial licenses may be used for pleasure both inside and outside the Province. In addition to this the Highway Traffic Board has the authority to, and does issue, permits to farmers permitting them to use their "F" licensed vehicles in connection with other work and businesses in which they may be engaged. Each such permit is another exemption from the Fuel Oil Tax, granted by a board which has no responsibility for levying or collecting the tax. For example a farmer who operates a small store or who may do carpenter or contracting work on the side may obtain such a permit. The contractors or businesses with whom he competes have to use taxed gasoline in their vehicles. So in actual practise any operator of a truck which has been licensed with an "F" license may use purple gasoline in his truck and use it for an extremely wide variety of purposes.

After tax free gasoline was first permitted to be used on highways, restrictions on what constituted a "wholesale" sale by a bulk station were also relaxed.

As pointed out earlier, the Fuel Oil Tax Act prohibits any retail dealer from having purple gas in any pump or other dispensing equipment that may be used for delivering or dispensing fuel oil directly into the fuel tank of a motor vehicle. It also prohibits the placing of purple gasoline directly into the fuel tank of a motor vehicle by either a retail or wholesale dealer in fuel oils. The intent of these provisions was to make it a little more inconvenient to get tax free gasoline

put into the tank of a vehicle used on highways. These provisions were supported by a volume definition of a “wholesale” sale. Alberta Regulation 126/58, Regulations under the Fuel Oil Licensing Act, Order-in-Council 678/58, originally defined a Wholesale Sale as follows:

“‘Wholesale Sale’ means a sale of fuel oil **in quantities of not less than 20 gallons for delivery at any one time** to be removed from the premises in containers at the time of sale.”

By Order-in-Council 864/62, this section was amended in June 1962 by deleting the words “in quantities of not less than 20 gallons for delivery at any one time”.

The effect of this amendment has been to remove any quantitative definition of a wholesale sale of fuel oil. Now a delivery of one gallon in a can may be regarded as a wholesale sale. Since purple gasoline can now legally be sold by bulk stations in gallon or 5-gallon containers, the purchaser doesn’t need tanks or pumps as he can simply pour it into his own vehicle tank.

If you have an “F” license and a can for your purple gas, you’ve no need for service stations and you can save approximately 20c a gallon on your gasoline. These factors have caused at 32% drop in the average volume sold by rural service stations.

## CHAPTER 41. THE USE OF PURPLE GASOLINE

### (1) Farm License Plates & Purple Gasoline

"F" licenses are issued in much the same manner as regular passenger car licenses are issued. Posted on the wall of the issuers' office is a sign, Chart 112, which draws the applicant's attention to a regulation about who is entitled to buy farm license plates. The applicant is asked if he is a farmer, rancher or market gardener and if he replies in the affirmative he gets the license. No further proof is required and no regular checks are made to determine if, in fact, the owners of vehicles with "F" licenses are farmers.

CHART 112



# ATTENTION FARMERS

**PLEASE NOTE** - Farm license plates are to be used only on vehicles owned and operated by bona fide farmers solely in connection with their own farm, ranch or market garden, but these plates are not to be used for operation of a vehicle in connection with any other line of business in which the owner may be engaged.

Motor Vehicle Branch

DEPARTMENT OF HIGHWAYS

Table 165

#### Purple Gasoline — Use on Highways — 1965-66

The total number of motor vehicle registrations in Alberta was:

Commercial licenses (including "F") .....	179,371
Passenger licenses .....	419,265
Total motor vehicle registrations .....	598,636

51% of all commercial vehicles in Alberta (other than trailers) had "F" licenses.

"F" licenses .....	91,559
other commercial licenses .....	87,812
Total commercial licenses .....	179,371

One vehicle out of every 6 on the highway was a "farm" vehicle using purple tax free gasoline.

"F" licenses .....	91,559
Total motor vehicle registrations .....	598,636

The gasoline used in vehicles with "F" licenses if taxed would have produced \$7,581,000.00. Farmers who can legally use tax free gasoline in their "F" licensed trucks are convicted for illegally using purple gasoline more than any other category of users.

#### Convictions for the Illegal Use of Purple Colored Fuel

Year	Total	Farmers	Truckers	Companies & Businessmen	Labourers	Misc.
1960	2,046	1,088	279	104	231	344
1961	2,155	1,035	281	153	280	406
1962	2,116	1,093	220	141	252	410
1963	1,280	637	96	109	199	239
1964	1,147	567	141	81	164	194
1965	639	298	95	58	80	108



## **(2) Price Advantage of Using Purple Gasoline**

Since purple gasoline is exempt from the fuel oil tax it necessarily follows that purchasers of this fuel are able to save at least 12c per gallon. However, a greater saving is obtained because purple gasoline cannot be bought from a service station so the buyer not only saves the tax, but also saves the service station operator's markup, and obtains the advantage of any discount the oil company gives from its "posted other consumer tank wagon price".

### **Section 13 (1) of the Fuel Oil Tax Act reads:**

13. (1) No retail or wholesale dealer in fuel oils shall fill or place in the fuel tank of a motor vehicle any fuel oil colored or identified under Section 10.

(2) No retail dealer in fuel oils shall have any fuel oil coloured or identified under Section 10, in any pump or other dispensing equipment that may be used for delivering or dispensing fuel oil directly into the fuel tank of a motor vehicle. (R.S.A. 1955, c. 125, 2.13; 1960 c.33, s.6)

(N.B. Section 10 referred to in the above Section 13 authorizes the use of purple dye as per section 18 (1) and (2) quoted earlier).

Purple gasoline must be purchased from a bulk plant and it is easily understood why people want to use purple gasoline which costs them 20c or 21c per gallon when the same grade of gasoline made by the same refinery but bought through a service station would be approximately 40c per gallon. There are no restrictions on who can buy gasoline from a bulk plant, so the way is wide open to anyone to buy tax free gasoline. The result of this situation is that purple gasoline is being used both legally and illegally in motor vehicles used on the roads in Alberta.

The price advantage in purchasing from a bulk station would usually be greater than shown on Chart 113. The chart is based on posted prices for the bulk stations, and bulk stations are frequently supplied at a discount from posted prices whereas service stations as a general rule pay "posted dealer tank wagon prices" and are not supplied at a discount. Taxed gasoline obtained from a bulk station in many cases is obtained at discounts of 1c or 1½c below "posted other consumer tank wagon prices" and not taxed purple gasoline obtained from a bulk station frequently enjoys discounts of 1½c, 2c or more. Accordingly the price differential shown on the facing chart may be increased in many cases by 1c or 2c per gallon due to discounting. If the discount exceeds 1½c per gallon the farm consumer pays less than the wholesale price paid by the service station operator.

## **(3) Increasing Use of Purple Gasoline**

In order to take advantage of the savings offered by the use of purple gasoline many people are using light trucks with "F" licenses rather than cars:

- (a) The increase in the number of "F" licenses (See Chart 114) has been accelerating although the farm population has been declining.
- (b) From 1954 to 1958 the average yearly increase in "F" licenses was 3.95%, but in the years from 1958 to 1966 since purple gas has been permitted on highways the average yearly increase in "F" licenses was 5.13%.
- (c) In 1954 there were only 76 "F" licenses per 100 farm households while in 1966 there were 135.

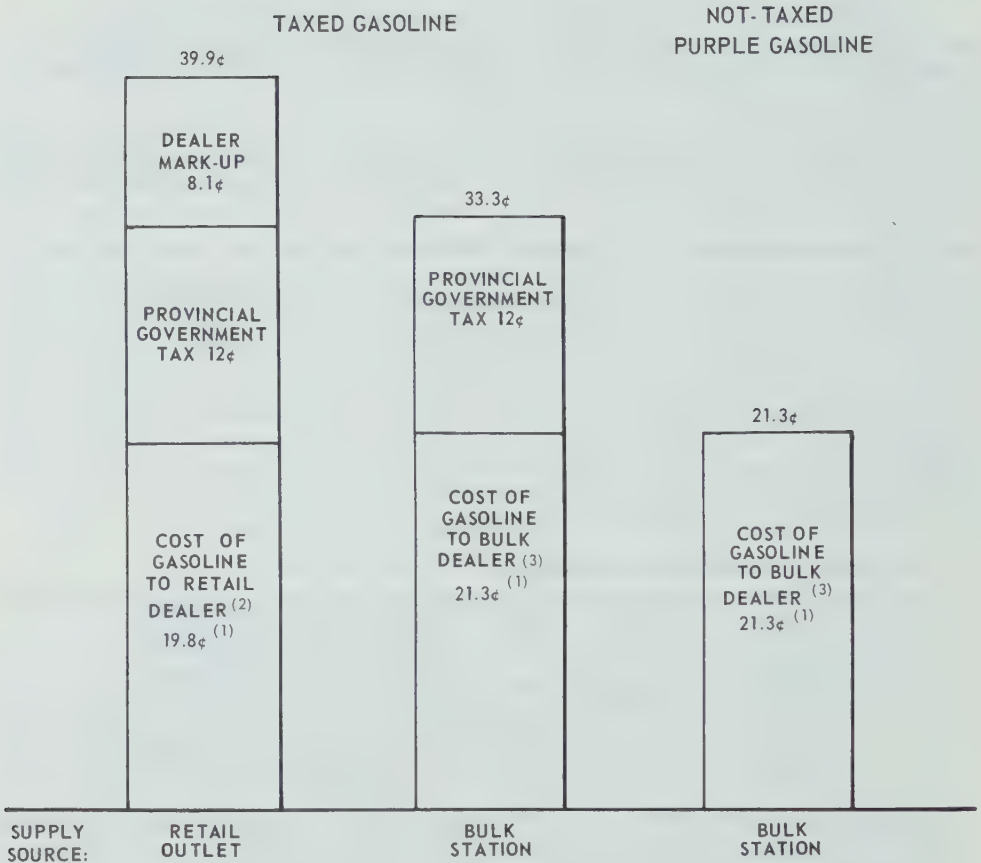
Purple gasoline is purchased by farmers in bulk and is used in both farm trucks and in agricultural equipment as well. It is, therefore, rather difficult to know just how much of this gasoline is being used by vehicles on the roads. There were in 1965, 91,559 registered vehicles licensed with "F" licenses in the Province. The average number of gallons of motor fuel used by all licensed vehicles in Alberta that year was 586 gallons per vehicle. Assuming that farm trucks would have used a like amount then this would mean that there was 63,176,000 gallons of purple gasoline used legally on the roads in Alberta that year. At 12c per gallon this would have produced \$7,581,000.00 in tax.

Although the R.C.M.P. and other police forces in the Province do some enforcing of the regulations under both the Fuel Oil Tax Act and the Public Service Vehicles Act, a large share of this enforcement is done by the Inspection Services Branch of the Attorney General's Department. There are from 30 to 35



**COMPARATIVE GASOLINE COSTS PER GALLON**  
**FROM SUPPLY SOURCES AVAILABLE TO OWNERS USING 'F' LICENCES - ALBERTA 1965**

REGULAR GRADE GASOLINE



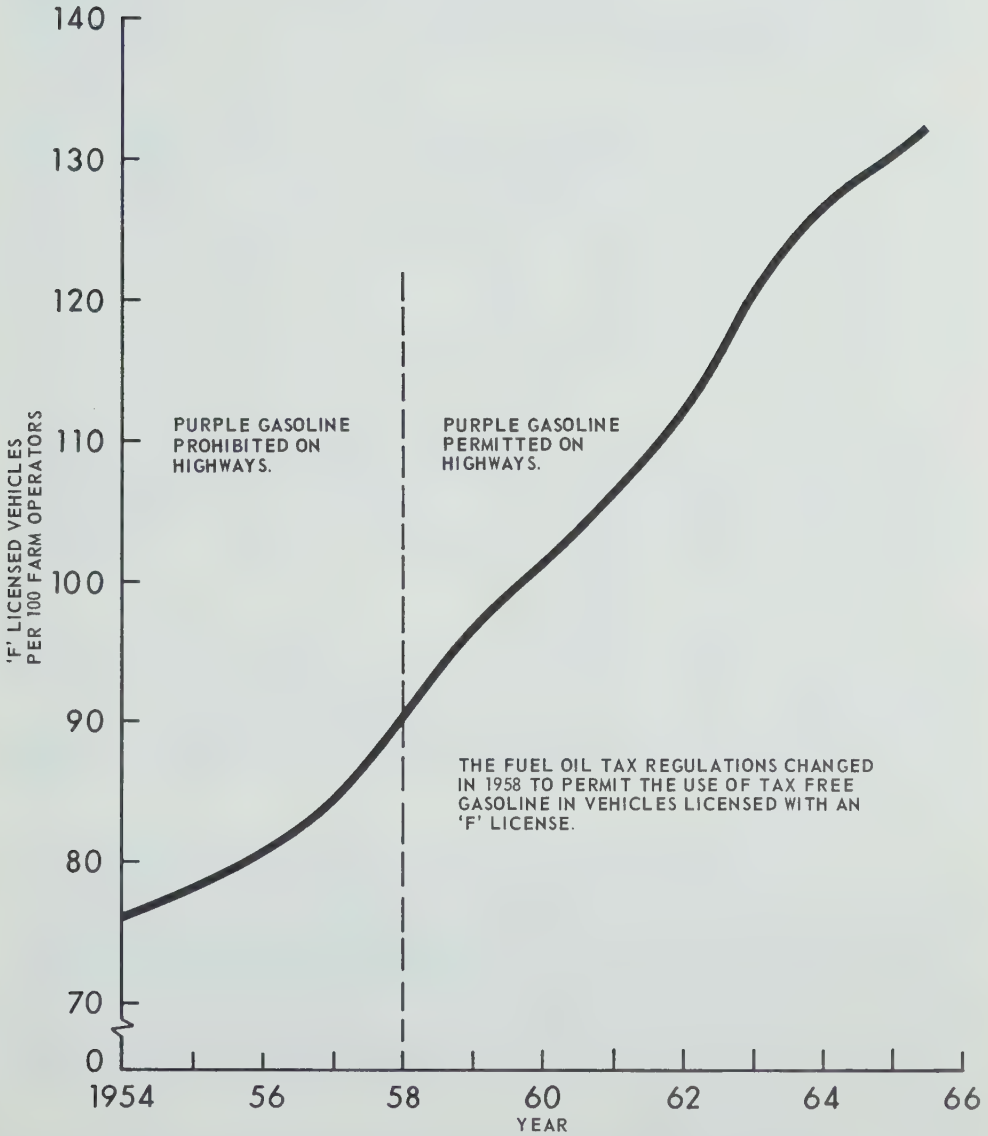
- (1) WEIGHTED AVERAGE PRICE FOR ALL COMPANIES
- (2) POSTED DEALER TANK WAGON PRICE
- (3) POSTED OTHER CONSUMER 'FARM' TANK WAGON PRICE

NOTE: 1.9¢ FEDERAL SALES TAX INCLUDED IN COST OF GASOLINE TO DEALER

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

CHART 114

"F" LICENSES PER 100 FARM OPERATORS  
ALBERTA 1954 - 1966



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

officers on staff with this Branch. These men move from one area of the Province to another making checks on vehicles as they go. When a vehicle is checked the officers inspect the lights, licenses, etc., and inspect the fuel in its tank as well. While checking for the proper use of an "F" license it is nearly impossible for these officers to determine if the operator of the vehicle qualifies for such a license. Because of the very varied nature of the farmer's work, he may be doing almost any type of work and still be engaged in part of his farming operation.

However, there are some charges laid under the Fuel Oil Tax Act for the illegal use of purple gasoline. Out of 40,554 vehicles checked in 1965, 639 operators were convicted for this offence. There are very few second or third time offenders but this is partly due to the odds against being spot checked twice. Since 1.58% of the vehicles checked were using purple gasoline illegally and since the consumption of taxable motor grade gasoline in the same year was 335,048,596 gallons it can be estimated that there were at least 5,293,768 gallons of tax free gasoline used on the roads illegally in 1965. At 12c per gallon this is a tax loss of \$635,000.00.

Bulk plant operators have profited by the change in the Fuel Oil Tax regulations regarding the use of purple gasoline in "F" licensed vehicles. These operators are paid a sales commission on this type of sale which is much higher than their commission for the same gasoline if it were taken to a service station. Not so the service station operator. He not only has lost this business but, in many cases he has lost the customer as well. Once a customer buys a half-ton truck, which is as comfortable as a modern car, he uses purple gasoline and has no real need to go into a service station. The station operator has then lost contact with the former customer and has lost a chance to sell T.B.A. items and repair, labour and service as well. Many of these farmers now buy their T.B.A. items from chain stores and supermarkets when they are doing other shopping.

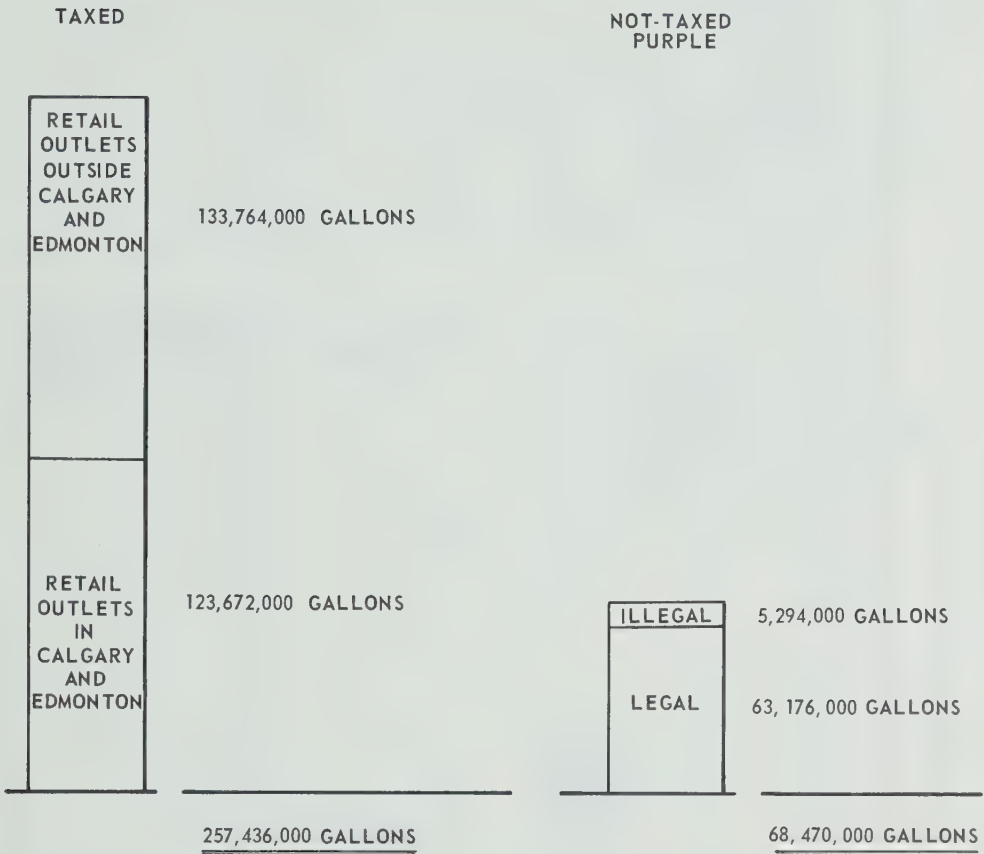
This loss has not been felt, to any large degree, by service stations located in Calgary and Edmonton. However, the situation in the rural areas of the Province is different. Here a large share of the potential customers are farmers. Since farmers can buy gasoline at half price this is what they do. If all the purple gasoline that is used in vehicles on the roads, was bought from service stations, located outside Calgary and Edmonton, then these service stations could, on the average, increase their gasoline business by about 51%.

The present system of enforcement is not very effective through no fault of the enforcement officers. Spot checks find only a fraction of the violations. A man found using purple gas may appear to be violating the spirit and intention of the Fuel Oil Tax Act but if he is the holder of an "F" license he cannot be convicted. The Committee is of the opinion that the illegal use of purple gas is much more widespread than is indicated by the minimum assumptions on which we based our charts. The Automotive Retailer's Association submits convincing arguments that it is.

The Committee considered recommending that purple gasoline be permitted in trucks of one ton or more in capacity. Such a recommendation would certainly eliminate a number of problems. Many of the persons who have improperly obtained "F" licenses did so for vehicles of one-half or three-quarter ton size. The larger trucks are less likely to be used for holiday trips, hunting trips or other similar purposes than the smaller trucks which in comfort and utility are comparable to a car. Although this suggestion would solve much of the problem, the Committee considered it to be unfair in that it would permit farmers with large trucks to use tax free gasoline but there would be many bona fide agricultural operations for which small trucks would be more appropriate where tax free gasoline could not be used.

The present law has no restrictions on the sale of purple gas by bulk agents, no restrictions on the purchase of purple gas by the public, just a restriction on use. Accordingly there is nothing illegal about buying, selling or possessing purple gas unless you are found using it illegally. The spot checks made by a handful of inspectors is the only present method of checking use, and this uncovers only a few of the offenders. Any person can go to a bulk agent and

## GASOLINE USED ON ALBERTA ROADS - 1965



The not-taxed purple is the maximum volume that could have been lost by rural retail outlets as a result of permitting farm trucks to use purple gas on highways.

The illegal part of the not-taxed purple would be added to the rural retail outlet volume and the government tax revenue would be similarly increased by improved enforcement.

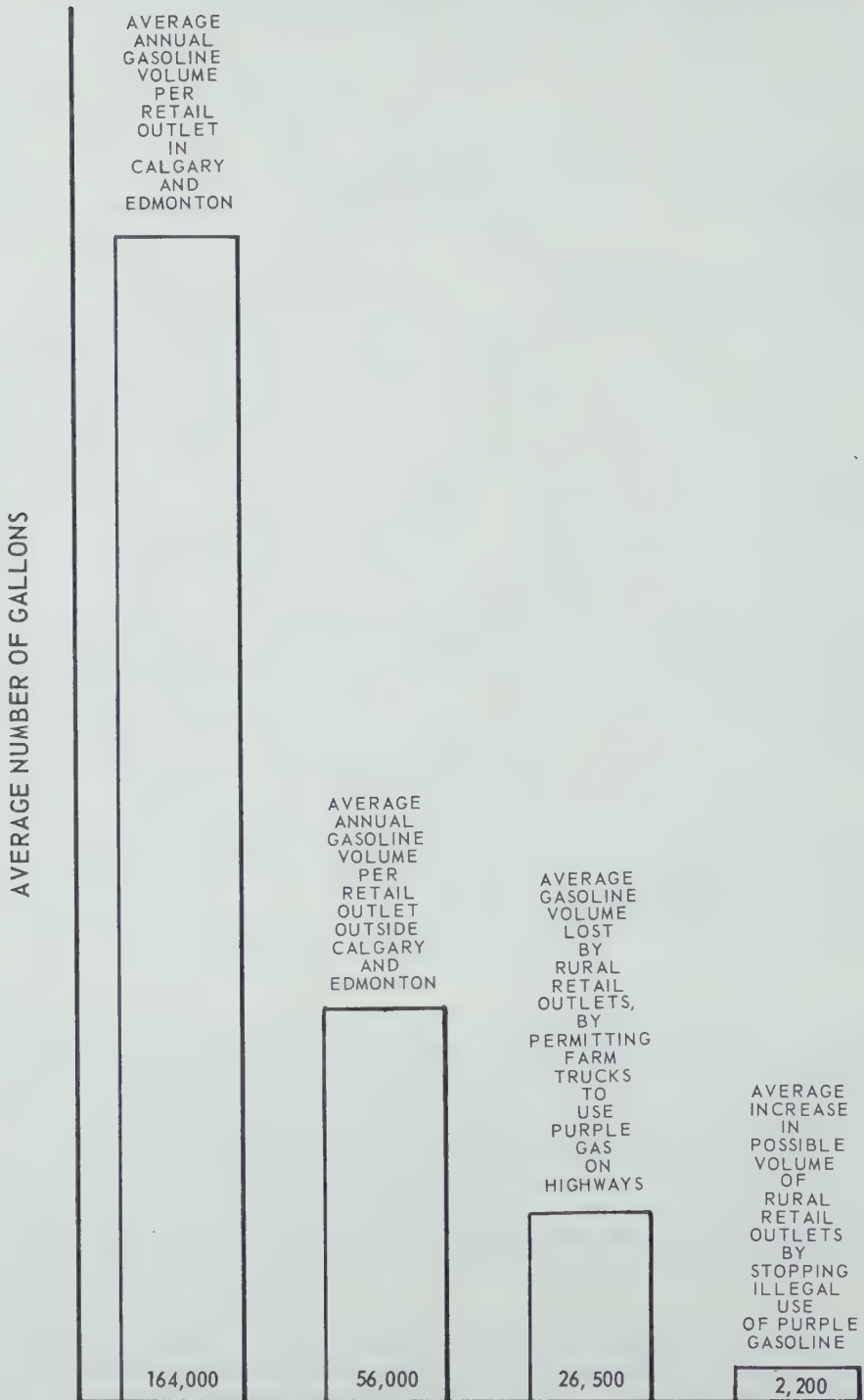
Nearly 17% of all gasoline used on Alberta roads is not taxed.

SOURCE: GASOLINE MARKETING ENQUIRY RECORDS



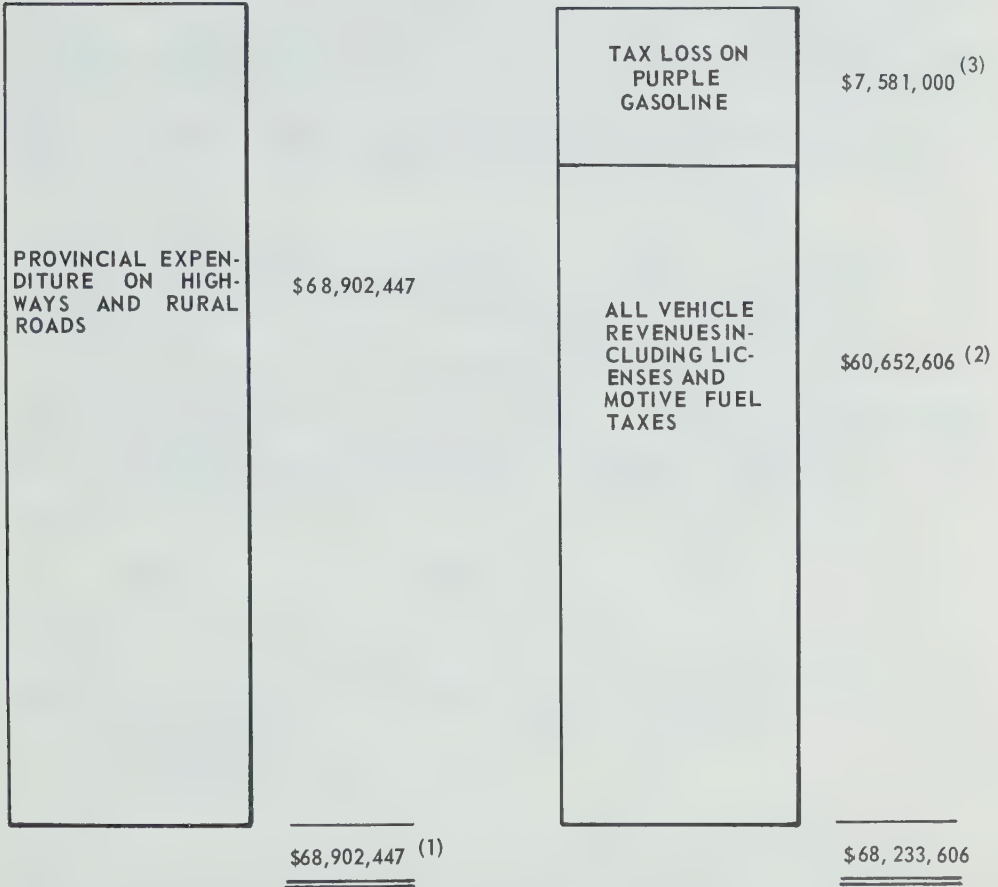
# VOLUME LOSS AT RURAL RETAIL OUTLET

CAUSED BY THE USE OF PURPLE GASOLINE ON ALBERTA ROADS - 1965



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

# PROVINCIAL REVENUE AND EXPENDITURE FOR VEHICULAR TRAFFIC – ALBERTA 1965



IF PURPLE GAS, NOW USED ON ALBERTA HIGHWAYS WERE TAXED AT 12 CENTS PER GALLON THE PROVINCE WOULD REALIZE APPROXIMATELY \$7, 581, 000 IN ADDITIONAL REVENUES.

SOURCE: (1) DOMINION BUREAU OF STATISTICS PUBLICATION 53-201  
(2) DOMINION BUREAU OF STATISTICS PUBLICATION 53-220  
(3) GASOLINE MARKETING ENQUIRY RECORDS

buy as much tax free gas as he chooses. The bulk agent doesn't have to inquire or to record to whom it was sold, the use for which it was sold, or the volume sold to any customer. The oil company isn't interested because it makes as much on tax free gasoline as on taxed gasoline.

**(4) Recommendations re Purple Gasoline**

The right to use purple gasoline on the highway is a valuable privilege, as it enables the user to purchase gasoline for approximately 20 cents a gallon less than the price paid by other motorists. To make sure that this privilege is used only by the persons intitled to it, in the opinion of the committee, justifies the administrative expense of requiring an annual written application and the granting of a written permit to use purple gas.

The committee's recommendations are enumerated below.

- (1) The purple gas permit entitling the holder to buy and use purple gas should be issued by the Department which is responsible for imposing the tax.
- (2) The application for the purple gas permit should describe the exempt uses for which it is required, classified into:
  - (a) other than highway uses; and
  - (b) highway uses.
- (3) Any farmer, rancher, or market gardener applying for a purple gas permit who wishes to operate one or more trucks bearing "F" licenses on highways should be required to complete a statutory declaration along the following lines:
  - 1. I am a (farmer), (rancher), (market gardener), actively carrying on my agricultural operations in Alberta during 196 .
  - 2. The other businesses or occupations in which I am actively engaged (if any) are:—
  - 3. The legal description of the land on which my agricultural operations are being conducted is:— containing ..... acres.
  - 4. The principal agricultural products which I produce on the said lands are enumerated as follows:—
  - 5. I desire to operate on highways during 19 the following trucks to be licensed with "F" licenses:—

Make	Year	Tonnage

6. Each truck so licensed will be used principally for agricultural purposes as follows:

Description of Truck	Description of Main Agricultural Uses of Truck

- (4) The purple gas permit issued to a farmer, rancher or market gardener shall list and describe his vehicles which are approved for licensing with "F" licenses.
- (5) An "F" license for a farm truck should be issued only to the holder of a purple gas permit which describes that vehicle.
- (6) On every sale of purple gasoline to a permit holder, the bulk agent should be required to prepare an invoice recording:—
  - (a) the name of the purchaser;
  - (b) the number of his purple gas permit;
  - (c) the gallonage purchased;and the purchaser or his agent should sign the invoice to acknowledge receipt.
- (7) It should be made illegal to buy purple gas without a permit.
- (8) Oil company records of sales of purple gas to permit holders should be open to inspection by the Fuel Oil Tax Branch as an aid to enforcement and as a source of accurate data on what categories of users are benefiting from the tax exemption.

The above suggestions would enable much more effective checks on the use of tax free fuel oil. The inspectors could compare information disclosed on an application with the applicant's actual operations to verify whether he is entitled to a permit. A copy of the permit should be carried in every vehicle bearing an "F" license. In the case of a violation if the permit could be suspended this would be one of the more effective penalties for using tax free gas improperly. The inspectors could check the purchase records of a person who used tax free gas improperly which would provide some facts as to the volume of his purchases.

If records existed from which purchasers could be identified, and volumes used could be computed and investigated, this would enable much more efficient enforcement than haphazard random checking of vehicles on highways.

This recommendation would require the issue of approximately 70,000 purple gas permits per year to farmers, approving approximately 90,000 vehicles for "F" licensing. If the government considers that those who benefit from the exemption should bear some part of the cost, each applicant for the tax exemption could be charged a small fee for the permit which would cover part of the cost of administering it.

The permit system should result in:

- (a) a substantial decline in illegal use of purple gas;
- (b) an increase in the fuel oil tax collected by the province;
- (c) an increase in the volume of taxed gasoline sold by rural service station operators;
- (d) much more information being available to enforcement officers from applications for permits and from records of sales which would make enforcement of tax payment simpler and more efficient.





# PART 11

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## PART 11

### THE WORLD OIL PERSPECTIVE

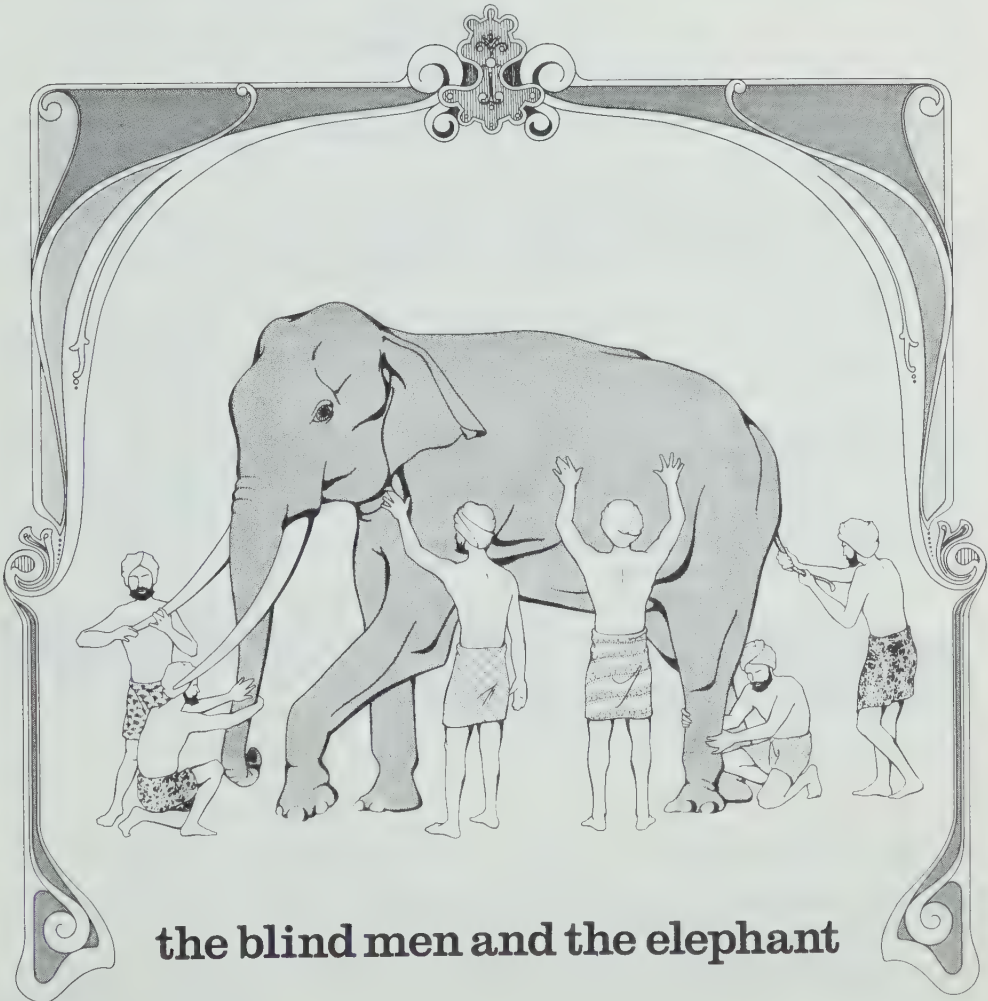
#### CHAPTER 42. THE COLOSSAL SIZE OF THE INTERNATIONAL OIL COMPANIES

##### (1) The Need for Perspective

The oil industry is huge, and the problems affecting any part of it are interwoven and tremendously complex.

In attempting to obtain enough information to understand the operation of even a part of this colossal industry, examine its problems, and venture opinions about the practices of experts with a lifetime of experience in the business, the Committee was mindful of the lesson illustrated by the old fable of the blind men examining the elephant.

CHART 118



**the blind men and the elephant**

It was six men of Hindustan  
To learning much inclined,  
Who went to see the elephant  
(Though all of them were blind),  
That each by observation  
Might satisfy his mind.

The First approached the elephant,  
And, happening to fall  
Against his broad and sturdy side,  
At once began to bawl:  
"God bless me! but the elephant  
is nothing but a wall!"



The Second, feeling of the tusk,  
Cried: "Ho, what have we here  
So very round and smooth and sharp?  
To me 'tis mighty clear  
This wonder of an elephant  
Is very like a spear!"

The Third approached the animal,  
And, happening to take  
The squirming trunk within his hands,  
Thus boldly up and spake:  
"I see," quoth he, "the elephant  
Is very like a snake!"

The Fourth reached out his eager hand,  
And felt about the knee:  
"What most this wondrous beast is like  
Is mighty plain," quoth he;  
"'Tis clear enough the elephant  
Is very like a tree."

The Fifth, who chanced to touch the ear,  
Said: "E'en the blindest man  
Can tell what this resembles most;  
Deny the fact who can,  
This marvel of an elephant  
Is very like a fan!"

The Sixth no sooner had begun  
About the beast to grope,  
Than, seizing on the swinging tail  
That fell within his scope,  
"I see," quoth he, "the elephant  
Is very like a rope!"

And so these men of Hindustan  
Disputed loud and long,  
Each in his own opinion  
Exceeding stiff and strong,  
Though each was partly in the right.  
And all were in the wrong!

So, oft in oil's commercial wars  
The disputants, I ween,  
Rail on in utter ignorance  
Of what each other mean,  
And prate about an elephant  
Not one of them has seen!

Although our committee's specific assignment was to examine problems in marketing, we considered it essential, if we were to avoid the error of the blind men, to obtain some information and understanding relating to the oil industry as a whole.

Just as some actions of the elephant's trunk may be motivated by the hunger in his stomach, so the actions of an oil company marketing department may be motivated by considerations arising from the production and refining of oil.

The Committee thinks conclusions drawn from examining only one part of the industry are more likely to be partly right and partly wrong than if the industry is considered as a whole. We are convinced that some marketing practices have no sensible explanation and would not exist if it were not for overriding considerations arising from producing, refining, and other parts of the oil company's total area of concern.

In the oil industry, very few persons engaged in it have the opportunity to see or comprehend the whole elephant. Most are concerned with the problem of making their own segment work better, not the problem of why it works the way it does, or how it fits in the broad perspective.

**(2) Classification of Companies**

The oil industry comprises a great number of companies, differing enormously in size and scope of operations. These companies may be broadly classified in three groups.

- (1) International Oil Companies ----- 8 companies
- (2) Other Major Integrated Oil Companies ----- 30 companies (approx.)
- (3) Smaller Oil Companies ----- 1,100 companies (approx.)

**1. The Eight International Companies**

Seven of the eight companies included in this classification are referred to in the "Report to the Federal Trade Commission by its Staff" in 1952 as the "International Petroleum Cartel". These are:

- Standard Oil Company, New Jersey
- The Royal Dutch - Shell Group of Companies
- British Petroleum Company Limited
- Gulf Oil Corporation
- The Texas Company
- Standard Oil Company of California
- Socony Mobil Oil Company Inc.

For convenience of reference, the Committee will use the term "cartel" to designate these seven companies. The eighth in the international classification is

The French Group, which includes Compagnie Française des Petroles (C.F.P.), and E.R.A.P.

Historically, the "cartel" companies and the French Group have:

- (a) controlled the exportable oil of the world;
- (b) determined and controlled the price of crude throughout the world;
- (c) determined and controlled the price of refined products throughout the world;
- (d) acted collectively in partnerships, in joint ventures, and by agreements in many parts of the world.

**2. Other Major Integrated Companies** than the 8 International Companies:

- (a) produce their oil and market their refined products primarily in the same country or continent;
- (b) have no substantial production in excess of their own national markets for export to world markets; and
- (c) operate mainly in the United States and Canada.

This classification includes companies such as Sun Oil Company, Tidewater Associated Oil Company, Phillips Petroleum Company, Skelly Oil Company, The Pure Oil Company, The Atlantic Refining Company, Continental Oil Company, Sinclair Oil Corporation, Cities Service Company, Mid-Continent Petroleum Corporation, Standard Oil Company (Indiana), Standard Oil Company (Kentucky) Inc.

**3. Smaller Oil Companies**

- (a) operate usually in one country and usually in only one function such as production or marketing.
- (b) although numerous, collectively account for only an insignificant proportion of the world's oil reserves, production, refining and marketing.

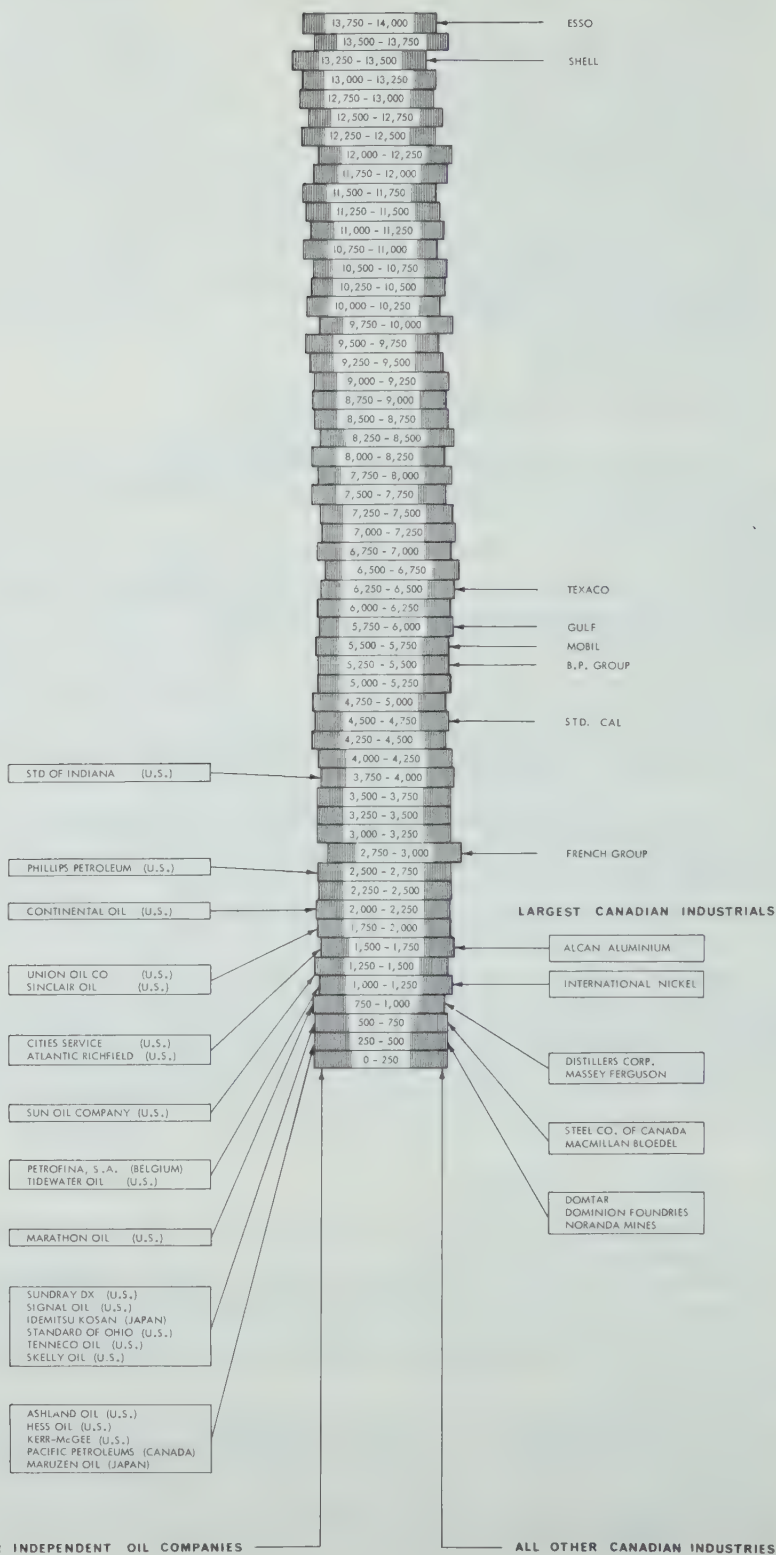
One measure of the relative magnitude of these companies is obtained by a comparison of assets.

Chart 119 illustrates the comparative assets of:

- (a) the eight international companies which control the free world's export oil,
- (b) other major integrated oil companies,
- (c) the largest Canadian industrials.

ASSETS OF ALL MAJOR OIL COMPANIES COMPARED  
WITH CANADIAN INDUSTRIAL FIRMS

1966

OTHER INTEGRATED  
OIL COMPANIESASSETS  
(Millions of Dollars)MAJOR  
INTERNATIONAL GROUP

**(3) Magnitude of The Oil Industry**

The colossal size of the oil industry almost defies comprehension.

Most Canadians regard the Alberta Government as wealthy. The annual expenditures of the Alberta Government for education, universities, highways, hospitals, health, welfare, public works, agriculture, and for many other departments of government total a very large sum. But, a regional office, located in Alberta, of a single subsidiary of one international oil company spent in the year 1966 approximately 50 million dollars more than the total Alberta Government expenditure in the same one year period.

One Canadian subsidiary of a cartel company paid taxes in Canada during 1966 in excess of 100 millions of dollars. What other Canadian taxpayer equals this? Yet this subsidiary is only one of several hundred subsidiaries controlled by its international parent, which, in turn, is one of the seven giants referred to as the “cartel”.

More than half of the Alberta Government’s expenditures are offset by receipts from oil. In the fiscal year ending 31 March, 1966, the Government of Alberta spent \$515,894,635. In the same period it received directly from the Oil Industry \$292,862,081. This does not include such things as business licenses on thousands of service stations and bulk plants, motor vehicle licenses for thousands of oil industry vehicles, income tax paid by oil companies to the Canadian government, some of which comes back to Alberta indirectly, or income tax paid by employees of oil companies, or municipal property taxes on refineries, gas plants, service stations, bulk agencies, and office buildings.

**Alberta Receipts from Oil Industry  
Fiscal Year Ending 31 March, 1966**

Fuel oil tax (collected by companies from consumers) .....	\$ 43,113,875
Mineral tax (chiefly oil industry) .....	1,921,996
Oil and Gas Conservation Board .....	1,123,820
Rentals .....	57,017,924
Royalties .....	68,634,351
Sales of Crown leases and reservations .....	121,050,115
Total .....	<u>\$292,862,081</u>

The gross revenue of the seven “cartel” companies is approximately one hundred times larger than the revenue of Alberta, and is approximately five times as large as the revenue of Canada as a whole. With revenues of this magnitude, the economic power of the “cartel” companies is immense.

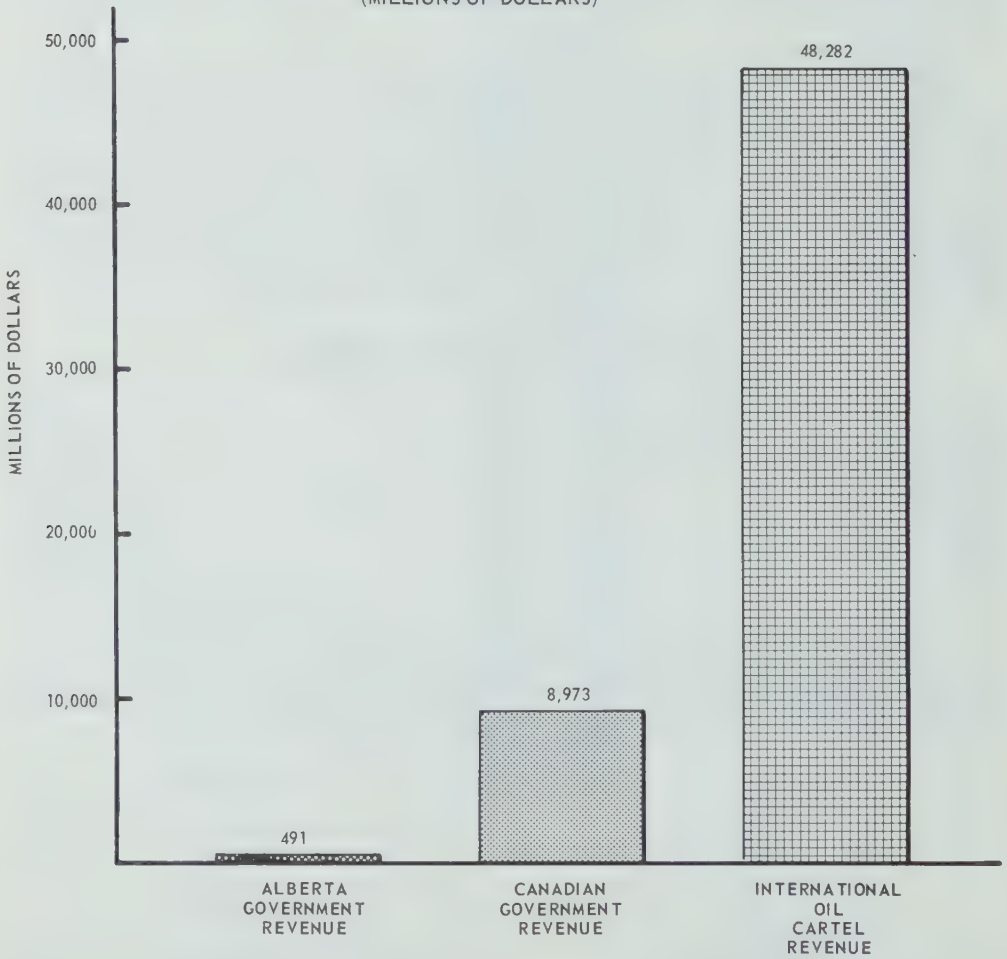


CHART 120

## GROSS REVENUE COMPARISON

ALBERTA GOVERNMENT, CANADIAN GOVERNMENT  
AND INTERNATIONAL OIL CARTEL - 1965

(MILLIONS OF DOLLARS)



SOURCE: GASOLINE MARKETING ENQUIRY RECORDS

## CHAPTER 43. WORLD OIL PRODUCTION AND EXPORT

### (1) World Production

In 1949 the production of crude oil was concentrated in three geographic areas:

1. North America (U.S. and Mexico),
2. The Caribbean (principally Venezuela), and
3. The Middle East.

These areas accounted for 85% of the world's total, although crude oil was produced in more than 40 countries in 1949.

### (2) World Export

Generally, North America consumption has exceeded its production so, the principal oil for export has originated historically in two areas—

1. The Middle East,
2. The Caribbean.

Most countries must rely on imports for most of their oil supplies. Even the relatively small number of countries which have some oil production supplement such production with substantial imports.

The exportable oil of the world was effectively controlled by eight international oil companies, which controlled the oil of the Middle East and the Caribbean.

Most imports must necessarily come from one or more of the “cartel” companies and C.F.P.

These “cartel” companies conduct joint operations through pairings or groupings in most parts of the world.

### (3) The Oil “Cartel” and Middle East Oil

The Iranian Consortium, in which all of the “Cartel” companies and C.F.P. are partners, has exclusive control of the oil of Iran.

B.P. ....	40%
Shell ....	14%
Esso ....	7%
Texaco ....	7%
Standard of California ....	7%
Mobil ....	7%
Gulf ....	7%
C.F.P. (French Group) ....	6%

Four of the “Cartel” companies and C.F.P. own 95% of the shares of Iraq Petroleum Co. Ltd., which controls all the oil of Iraq, Qatar, the Trucial Coast and other less important areas in the Middle East.

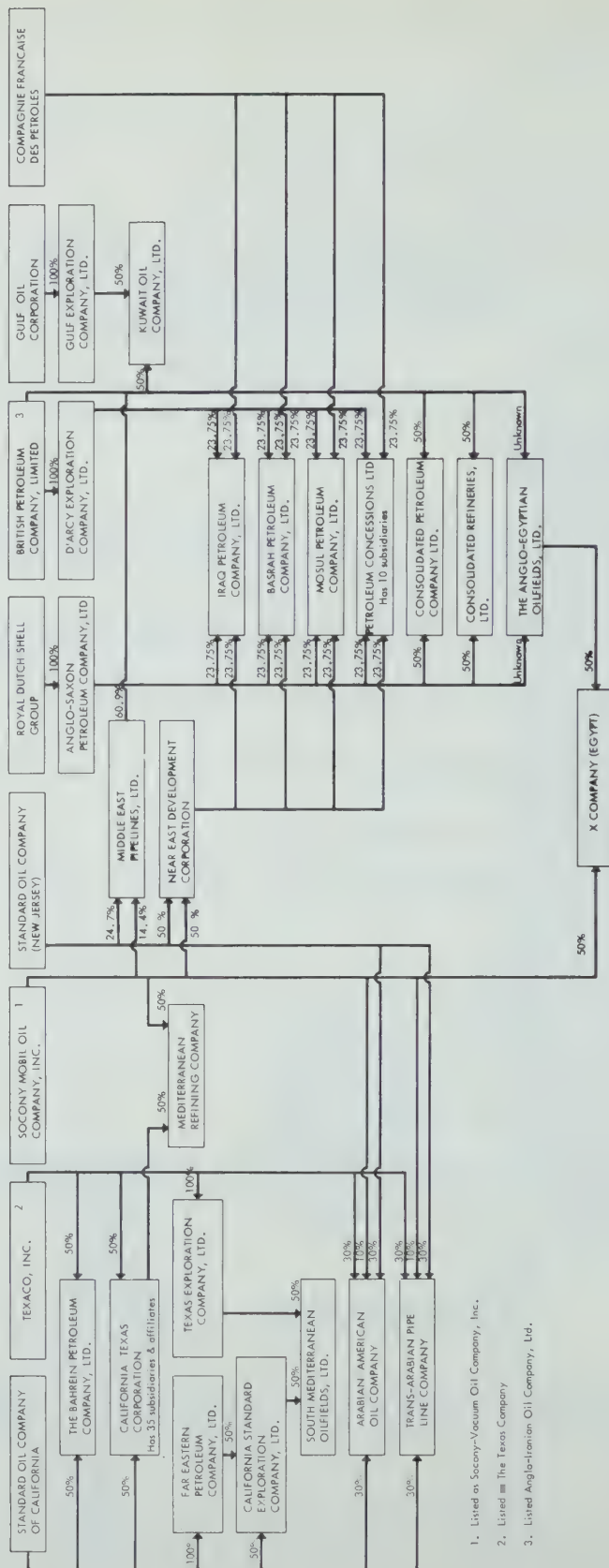
Shell ....	23.75%
B.P. ....	23.75%
C.F.P. (French Group) ....	23.75%
Mobil ....	11.375%
Esso ....	11.375%

Four of the “Cartel” companies own all of the shares of Arabian American Oil Co., which controls all the oil in Saudi Arabia.

Esso ....	30%
Texaco ....	30%
Standard of California ....	30%
Mobil ....	10%

CHART 121

# JOINT OWNERSHIPS BY INTERNATIONAL OIL COMPANIES OF SUBSIDIARY AND AFFILIATED COMPANIES IN THE MIDDLE EAST



1. Listed as Socany-Vacuum Oil Company, Inc.
2. Listed as The Texas Company
3. Listed Anglo-Iranian Oil Company, Ltd.

Sources: U. S. Federal Trade Commission, International Petroleum Cartel, 1952.

Two of them own the Bahrein Petroleum Co. Ltd., which controls the oil resources of Bahrein Island.

Texaco .....	50%
Standard of California .....	50%

Two of them jointly own the oil of Kuwait.

B.P. ....	50%
Gulf .....	50%

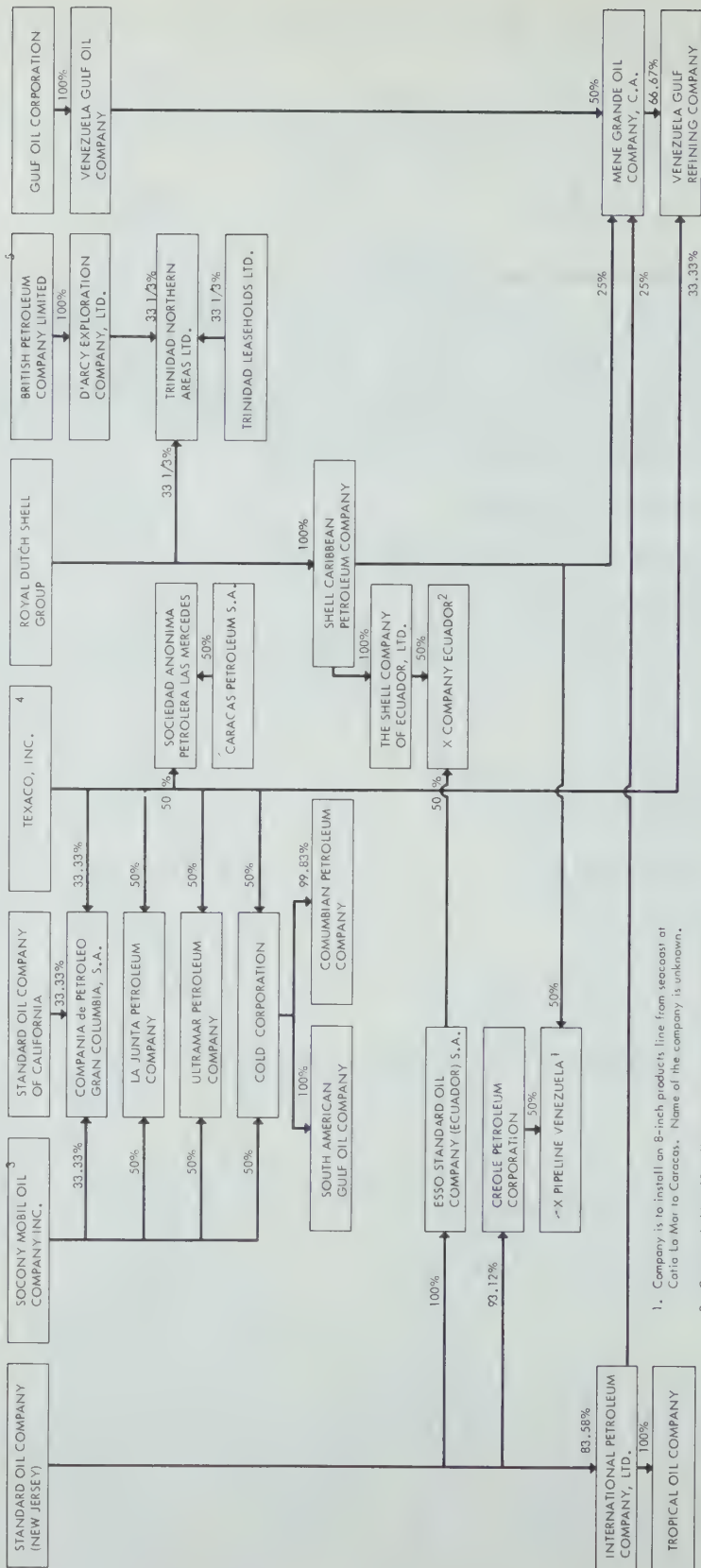
(4) The Oil “Cartel” and Caribbean Oil

Most of the oil resources of the Caribbean Countries are similarly controlled by the “Cartel” companies, either by separate operations or by joint companies or partnerships. About 36% of the oil of Venezuela is produced by Esso through Creole Petroleums. Compania Shell is the next largest, followed by Mene Grande, which is a joint company of Gulf, Shell, and Esso. Similar patterns exist in other Caribbean producing countries.

Creole Petroleums (Venezuela) .....	Esso	95.41%
Compania Shell de Venezuela Limited .....	Shell	100 %
Mene Grande (Venezuela) .....	Gulf	50 %
	Shell	25 %
	Esso	25 %
		100 %
Texaco Maracaibo Incorporated .....	Texaco	100 %
Texas Petroleum Company .....	Texaco	100 %
Coro Petroleum Company .....	Texaco	100 %
Venezuela Gulf Refining Co. ....	Texaco	33 1/3 %
	Gulf	33 1/3 %
	Esso	16 2/3 %
	Shell	16 2/3 %
		100 %
Compania de Petroles Group, Columbia, S.A. -----	Mobil	33 1/3 %
	California	33 1/3 %
	Texaco	33 1/3 %
		100 %
Tropical Oil & 26 subsidiaries .....	Esso	83.58%
Trinidad Northern Areas Ltd. ....	Shell	33 1/3 %
	B.P.	33 1/3 %
	Trinidad Leaseholds	33 1/3 %
		100 %



CHART 122  
JOINT OWNERSHIPS BY INTERNATIONAL OIL COMPANIES OF SUBSIDIARY AND  
AFFILIATED COMPANIES IN THE CARIBBEAN



1. Company is to install an 8-inch products line from seacoast at Cafia La Mar to Caracas. Name of the company is unknown.  
2. Company holds a 12-million acre concession. Name unknown.  
3. Listed as Socany-Vacuum Oil Company, Inc.  
4. Listed as The Texas Company  
5. Listed as Anglo-Iranian Oil Company, Ltd.

Source: U. S. Federal Trade Commission, International Petroleum Control, 1952.

(5) Oil Imports And Exports 1955 & 1965

In 1955, the historic export sources

- (a) The Middle East, and
- (b) The Caribbean

accounted for practically all the world's export crude.

In 1965, although the two historic export sources still dominate

- (a) African exports (from N. Africa and Nigeria) have grown spectacularly
- (b) Russia is becoming a significant exporter and has ceased being an importer.
- (c) Canadian exports are overtaking imports, although Canada remains a net importer.

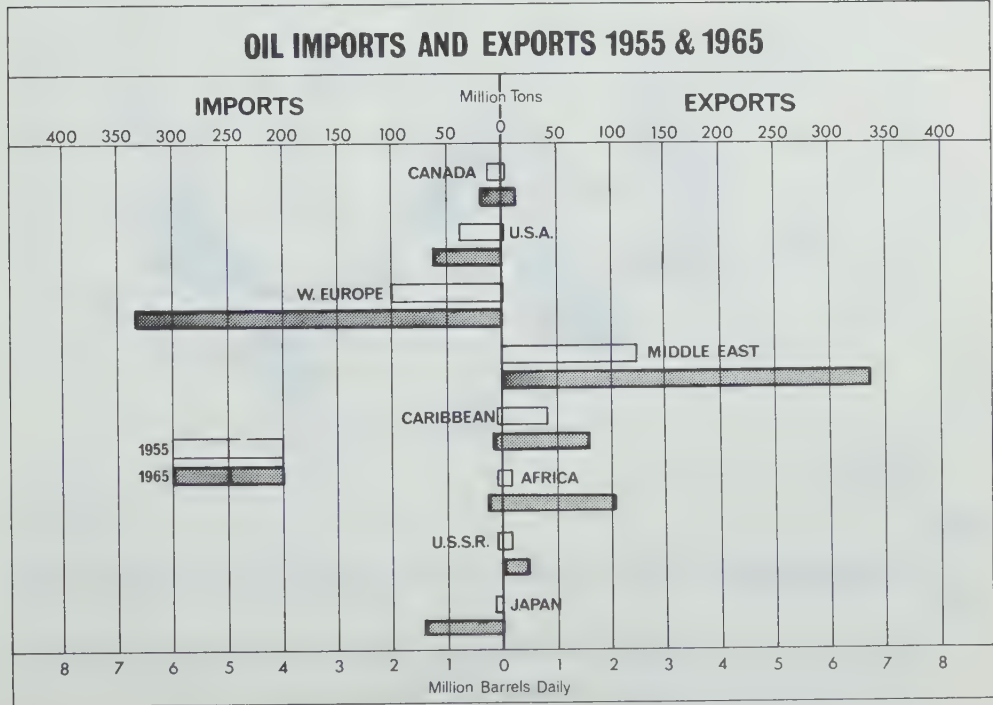
In 1955 the largest importers were:

- (a) West Europe
- (b) The U.S.A.

In 1965 the largest importers were:

- (a) West Europe
- (b) Japan
- (c) The U.S.A.

CHART 123



## (6) Main Oil Movements By Sea

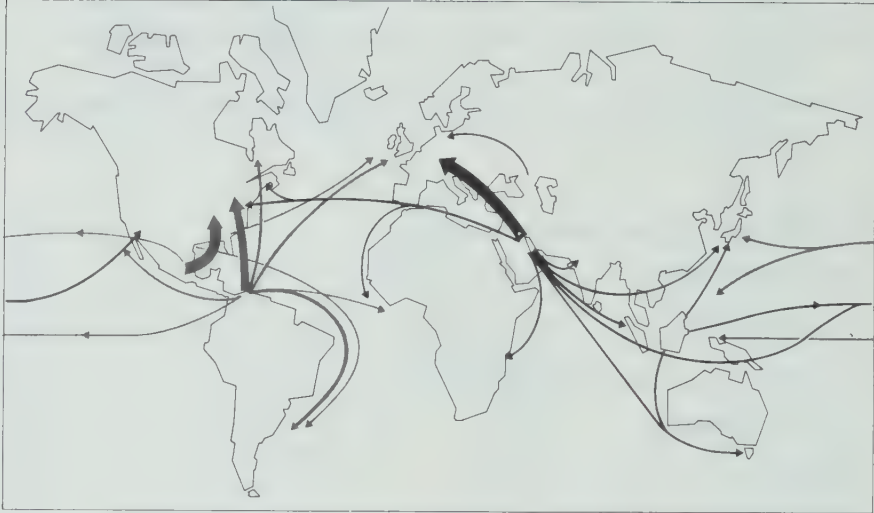
1955

This clearly shows the two historic export sources of oil

- (a) the Middle East
- (b) the Caribbean.

CHART 124  
**MAIN OIL MOVEMENTS BY SEA**

1955



1965



1965

The Middle East and the Caribbean are still the principal sources of export crude.

However, two new sources are assuming increasing importance in export

- (a) African oil from North Africa and Nigeria
- (b) oil from U.S.S.R.

**(7) World Oil Supply & Demand 1965**

The exportable excess of supply over demand is still obvious in the historic export sources

- (a) The Middle East
- (b) The Caribbean.

The exportable excess of supply over demand is becoming apparent in newer export sources

- (a) in Africa (North Africa and Nigeria)
- (b) in Russia.

The largest importers are

- (a) West Europe
- (b) Japan
- (c) U.S.A.

CHART 125

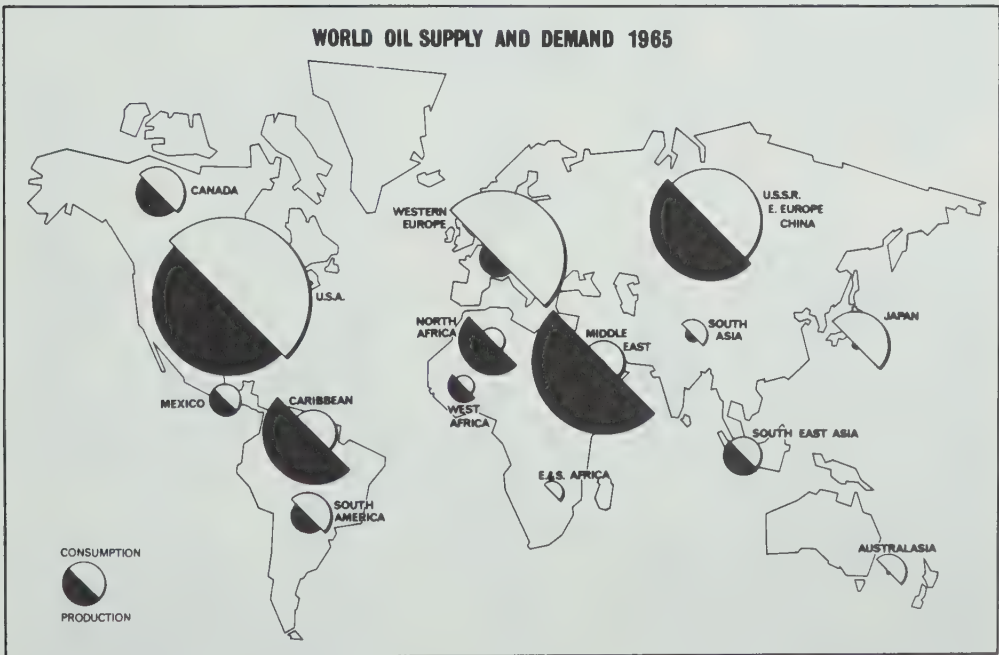




Table 166.

**WORLD OIL SUPPLY AND DEMAND  
1965**

(Thousands of Barrels Per Day)

Country	Demand	Production	Net Imports (Exports)	Rank In Imports	Rank In Exports
<b>NORTH AMERICA</b>					
Canada .....	1,150	925	225	13	
United States .....	11,300	9,015	2,285	1	
Mexico .....	341	370	(29)		17
North America Total .....	12,791	10,310	2,481		
<b>CENTRAL AMERICA</b>					
Bahama Islands .....	28		28	45	
Barbados .....	9		9	69	
Bermuda .....	6		6	76	
British Honduras .....	1		1	96	
Canal Zone .....	48		48	36	
Costa Rica .....	5		5	81	
Cuba .....	95	1	94	25	
Dominican Republic .....	10		10	62	
El Salvador .....	7		7	73	
Guatemala .....	12		12	60	
Haiti .....	2		2	91	
Honduras .....	6		6	79	
Jamaica .....	23		23	48	
Netherlands W.I. ....	110		110	21	
Nicaragua .....	6		6	78	
Panama .....	14		14	56	
Puerto Rico .....	99		99	23	
Trinidad .....	58	134	(76)		15
Other West Indies .....	7		7	75	
Central America Total .....	546	135	411		
<b>SOUTH AMERICA</b>					
Argentina .....	381	270	111	20	
Bolivia .....	9	9	(0)		21
Brazil .....	327	95	232	11	
Chile .....	60	35	25	46	
Colombia .....	68	201	(133)		14
Ecuador .....	15	8	7	74	
British Guiana, French Guiana, and Surinam .....	13		13	59	
Paraguay .....	3		3	88	
Peru .....	76	63	13	58	
Uruguay .....	35		35	42	
Venezuela .....	178	3,474	(3,296)		1
South America Total .....	1,165	4,155	(2,990)		
<b>AFRICA</b>					
Algeria .....	32	552	(520)		8
Angola .....	11	13	(2)		20
Cameroons .....	4		4	87	
Canary Islands .....	22		22	50	
Cape Verde Islands .....	6		6	77	
Central African Republic .....	16		16	54	
Congo .....	9	1	8	71	
Egypt .....	128	123	5	80	
Ethiopia .....	4		4	85	
French Somaliland .....	30		30	43	
Gabon .....	2	25	(23)		19
Ghana .....	12		12	61	
Kenya .....	19		19	53	
Liberia .....	4		4	84	
Libya .....	9	1,220	(1,211)		6
Morocco .....	26	2	24	47	
Mozambique .....	8		8	72	
Nigeria .....	25	272	(247)		12
Sierra Leone and Gambia .....	9		9	65	
Somali Republic .....	1		1	97	
South Africa, Republic of .....	127		127	17	
Sudan .....	13		13	57	
Tanganyika .....	9		9	64	
Tunisia .....	16		16	55	
Uganda .....	4		4	86	
Other (West Africa) .....	43		43	38	
Africa Total .....	589	2,208	(1,619)		

# MIDDLE EAST

Country	Demand	Production	Net Imports (Exports)	Imports	Rank In Exports
Aden .....	74		74	27	
Bahrain .....	29	57	(28)		18
Iran .....	186	1,886	(1,700)		4
Iraq .....	58	1,315	(1,257)		5
Israel .....	61	4	57	31	
Jordan .....	9		9	66	
Kuwait .....	76	2,170	(2,094)		2
Lebanon .....	43		43	37	
Neutral Zone .....	43	361	(318)		10
Qatar .....	2	231	(229)		13
Saudi Arabia .....	89	2,025	(1,936)		3
Syria .....	22		22	49	
Trucial Coast (primarily Abu Dhabi) .....	2	282	(280)		11
Turkey .....	81	30	51	34	
Middle East Total .....	775	8,361	(7,586)		

# FAR EAST

Afghanistan .....	3		3	89	
Australia .....	350	7	343	9	
Brunei-Malaysia .....	6	80	(74)		16
Burma .....	17	12	5	82	
Cambodia-Vietnam .....	22		22	51	
Ceylon .....	21		21	52	
Fiji Islands .....	3		3	90	
Guam .....	2		2	92	
Hong Kong-Macao .....	41		41	40	
India .....	249	62	187	15	
Indonesia .....	158	485	(327)		9
Japan .....	1,743	12	1,731	2	
Korea (South) .....	29		29	44	
Laos .....	1		1	94	
New Caledonia .....	2		2	93	
New Zealand .....	59		59	29	
Pacific Islands .....	9		9	67	
Pakistan .....	72	11	61	28	
Philippines .....	97		97	24	
Singapore-Malaysia .....	115		115	18	
Taiwan (Formosa) .....	36		36	41	
Thailand .....	42		42	39	
West New Guinea .....	1		1	95	
Far East Total .....	3,078	669	2,409		

# WESTERN EUROPE

Austria .....	107	55	52	33	
Belgium and Luxembourg .....	293		293	10	
Cyprus .....	8		8	70	
Denmark .....	205		205	14	
Eire (Ireland) .....	48		48	35	
Finland .....	114		114	19	
France .....	1,088	60	1,028	5	
Germany (West) .....	1,607	160	1,447	4	
Gibraltar .....	9		9	68	
Greece .....	84		84	26	
Iceland .....	10		10	63	
Italy and Sicily .....	1,040	39	1,001	6	
Malta .....	5		5	83	
Netherlands, The .....	500	45	455	7	
Norway .....	100		100	22	
Portugal .....	56		56	32	
Spain .....	228		228	12	
Sweden .....	378		378	8	
Switzerland .....	166		166	16	
United Kingdom .....	1,494	2	1,492	3	
Yugoslavia .....	58		58	30	
Western Europe Total .....	7,598	361	7,237		
FREE WORLD TOTAL .....	26,542	26,199	343		

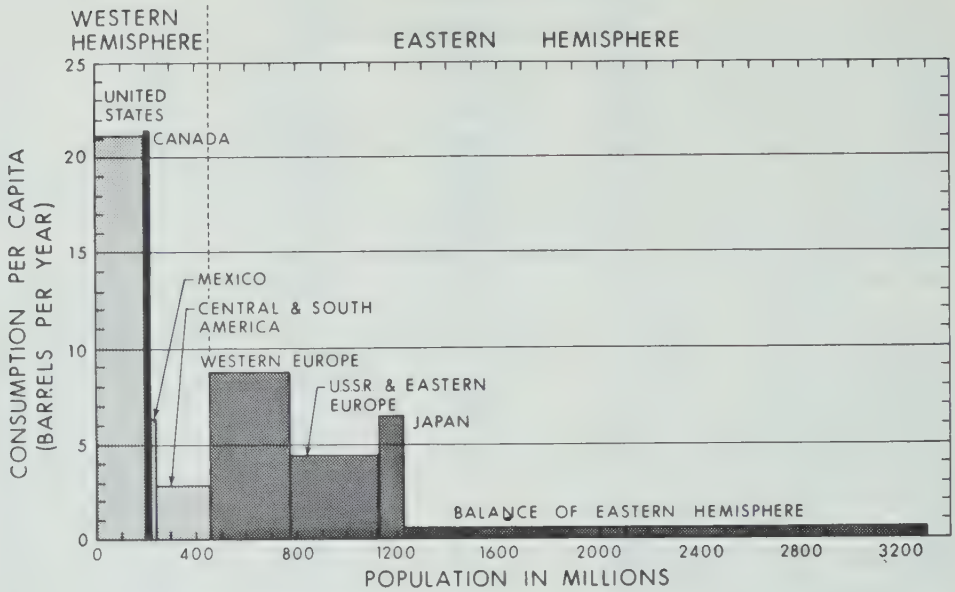
# COMMUNIST BLOC

U.S.S.R. ....	3,587	4,837	(1,250)		7
East Europe .....	777	366	411*		
China, Mongolia, North Korea and North Vietnam ..	173	158	15*		
Communist Bloc Total .....	4,537	5,361	(824)		
* Net Imports from U.S.S.R.					

# WORLD TOTAL

WORLD TOTAL .....	31,079	31,560	(481)		
-------------------	--------	--------	-------	--	--

CHART 126  
PER CAPITA CONSUMPTION  
OF OIL, 1965



## (8) Production and Reserves

### Total Discovered Oil

The Middle East has the world's largest reserves of oil.

The U.S. has already produced more oil than remains in its known reserves. In addition to consuming its own production, it has consumed a large part of the Caribbean production.

The U.S. will become increasingly dependent on imports.

### World Cumulative Crude Oil Production & Reserves 1950 - 1965

The reserves known in 1950 were fully consumed by the end of 1964, a life of 14 years.

CHART 127

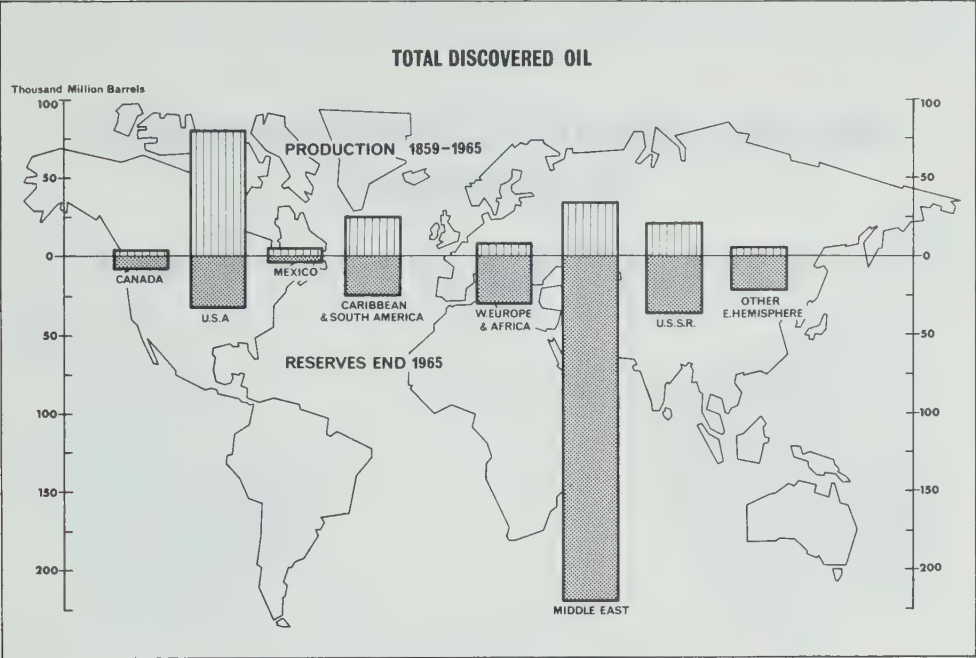
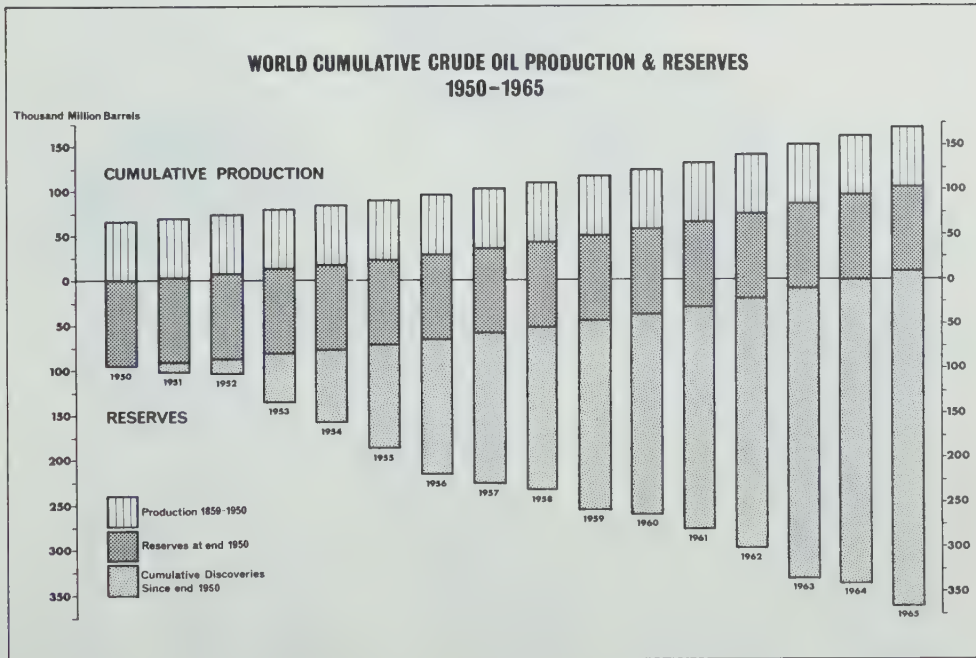


CHART 128





## Cumulative Production & Cumulative Discoveries of Oil 1900 - 1966

The cumulative amount of discoveries that exist in any year is equalled by cumulative production ten to fifteen years later.

The known reserves in any year are usually produced within ten to fifteen years.

CHART 129

### CUMULATIVE PRODUCTION & CUMULATIVE DISCOVERIES OF OIL 1900-1966

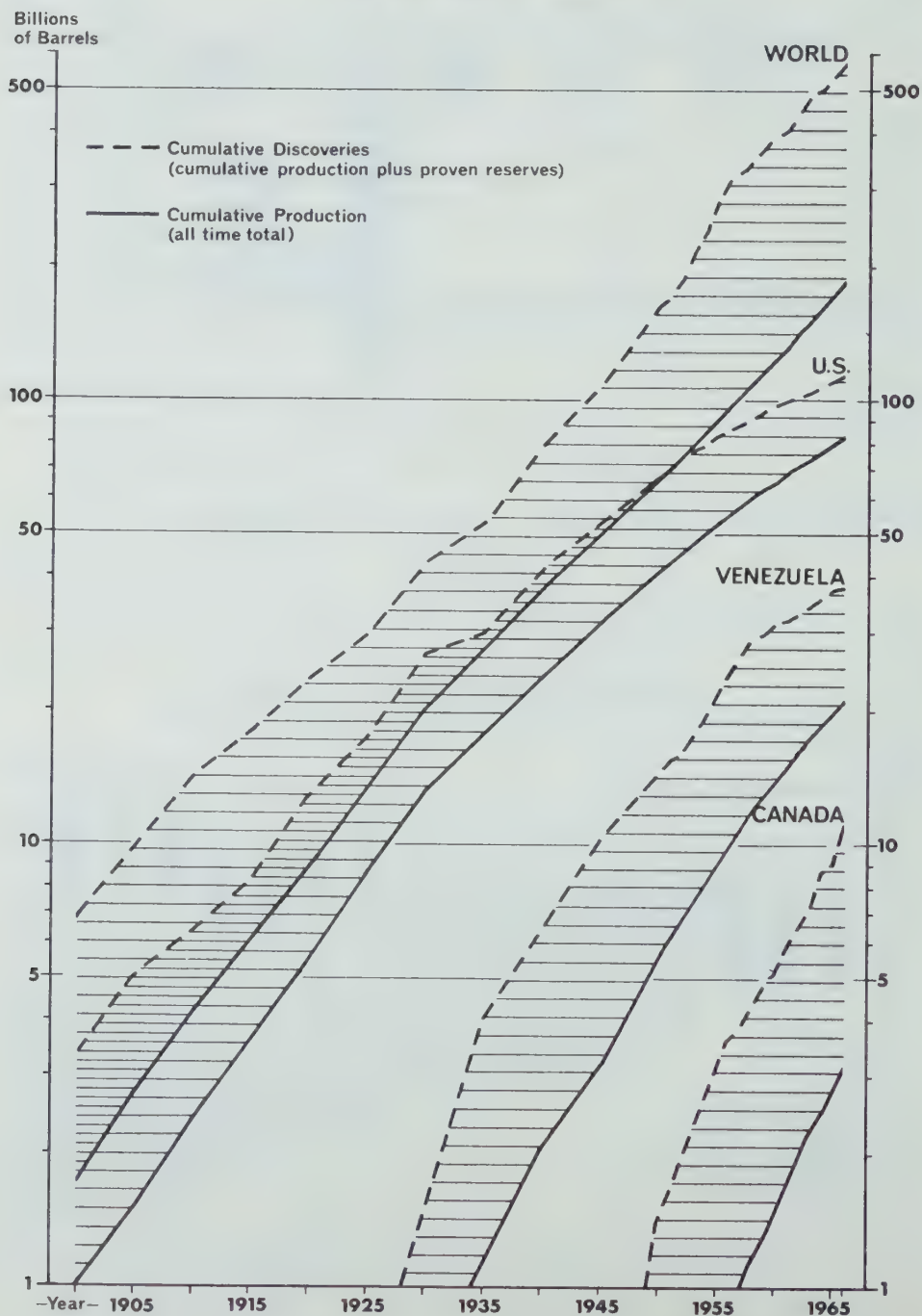


CHART 130

**DISTRIBUTION OF WORLD ENERGY RESOURCES  
OF FOSSIL FUELS**

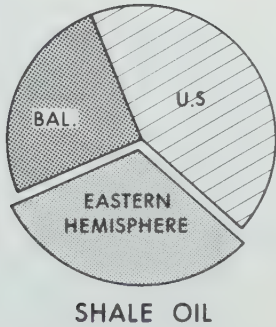
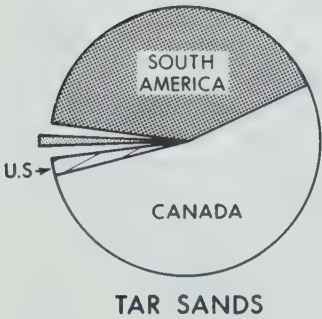
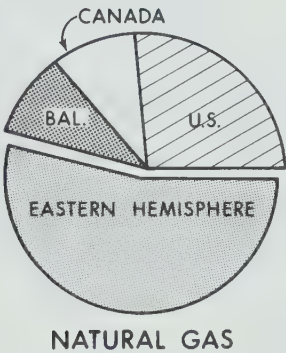
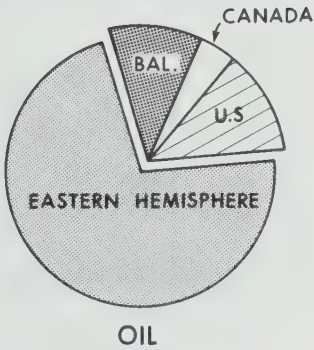
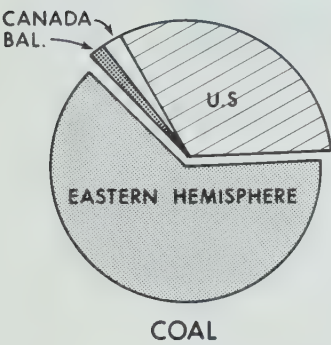
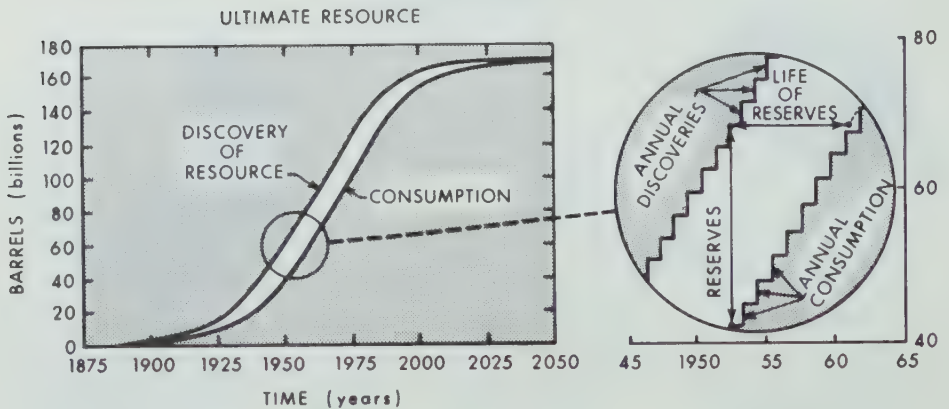
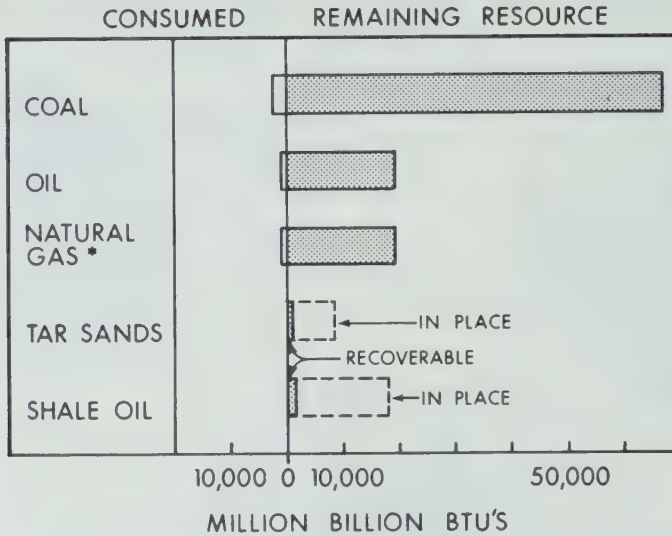


CHART 131

## TOTAL WORLD ENERGY RESOURCES OF FOSSIL FUELS



CUMULATIVE DISCOVERY AND CONSUMPTION OF A FINITE RESOURCE

## CHAPTER 44. THE INTERNATIONAL OIL "CARTEL"

### (1) Dominant Position of the "Cartel"

The outstanding characteristic of the world oil industry is the dominant position of eight international companies. The eight companies that conduct a majority of the world's oil business include five American companies, two British-Dutch companies, and one French company.

In the "Staff Report to the Federal Trade Commission" of the United States, prepared in August of 1952, entitled the "International Petroleum Cartel", the world position of seven of these eight oil companies (excluding Compagnie Française des Petroles) was examined as of January 1949.

In 1949, outside of the United States, Mexico, Russia and Russian controlled countries, the seven "Cartel" companies controlled

(a) world reserves .....	92 %
(b) world production .....	88 %
(c) world refining capacity .....	77 %
(d) world cracking capacity .....	85 %
(e) world petroleum pipelines .....	100 %
(f) privately owned oil tanker tonnage .....	66⅔ %

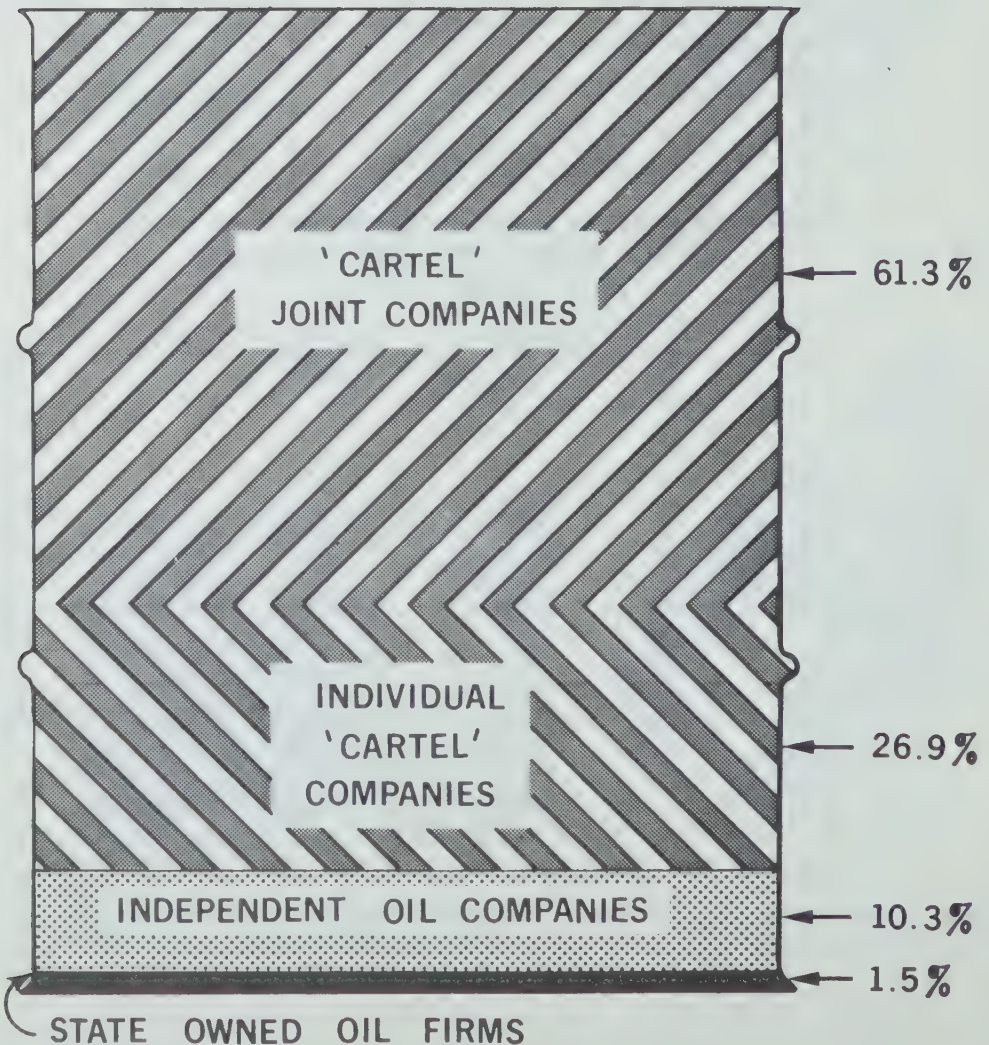
Table 167.

#### SUMMARY OF SHARE OF FREE-WORLD CRUDE OIL PRODUCTION BY FIRM OR AGENCY IN EXPORTING COUNTRIES 1965

Country	Total Joint "Cartel"	Total Individual "Cartel"	Total Independents	Total Government	Total
Venezuela .....	411	2,665	389	9	3,474
Kuwait .....	2,170				2,170
Saudi Arabia .....	2,025				2,025
Iran .....	1,718		111	57	1,886
Iraq .....	1,245		65	5	1,315
Libya .....	43	668	509		1,220
Algeria .....	226	232	27	67	552
Indonesia .....	378	70		37	485
Neutral Zone .....			361		361
Abu Dhabi .....	272		10		282
Nigeria .....	246	26			272
Qatar .....	184	37	10		231
Colombia .....	30	108	35	28	201
Trinidad .....	43	86½	4½		134
Brunei-Malaysia .....		80			80
Bahrain .....	57				57
Gabon .....	25				25
Angola .....			6½	6½	13
Bolivia .....				9	9
	9,073	3,972 ½	1,528	218 ½	14,792
	61.3%	26.9%	10.3%	1.5%	



# OWNERSHIP OF OIL IN FREEWORLD EXPORTING COUNTRIES 1965



## **Dominant Position of the “Cartel” in Export Oil**

Most of the oil resources of the exporting countries are produced and controlled by the “cartel” companies.

Each of the “cartel” companies produces oil in several countries.

Within each exporting country, members of the “cartel” frequently group together in consortiums or as shareholders of a single producing company which they collectively own and operate.

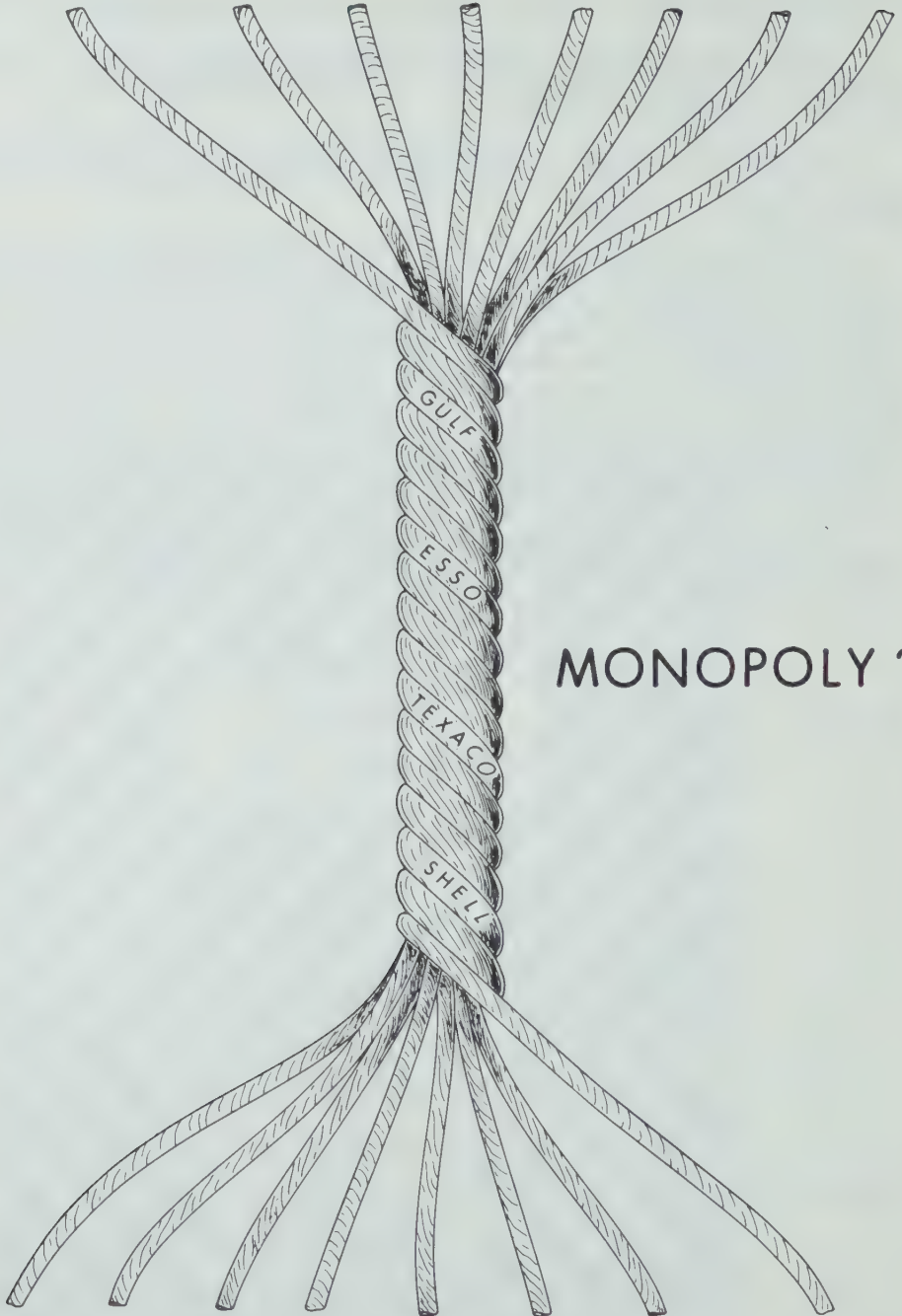
The eight international companies are something like an eight strand rope which is partially unravelled at both ends but is tightly intertwined at various places throughout its length.

At one end, where the rope is unravelled, the eight strands are eight separate companies originating in different countries; five in the United States, one in Britain, one in Holland and one in France. Throughout the length of the rope, in the producing countries they are tightly intertwined in consortiums, commonly owned companies, and joint ventures. They are intertwined at other points where common interests or government regulations so require, such as in pipelines which are common carriers, gas absorption plants in unitized fields, etc. They freely exchange refined products from the refining division of one to the marketing division of another. At the other end of the rope, the strands separate again and the eight companies resume their separate identities for purposes of marketing to the public.

There is so much common interest, so many common problems, and so many places in which they are intertwined, that their behavior is inevitably similar even when they separate.

# OLIGOPOLY ?

FRENCH GROUP B.P. GROUP SHELL STD.CAL. MOBIL GULF TEXACO ESSO



MONOPOLY ?



INDEPENDENT  
COMPETITORS ?

CHART 134

'CARTEL' SHARE OF PRODUCTION AND/OR OWNERSHIP OF EXPORTED OIL  
1965

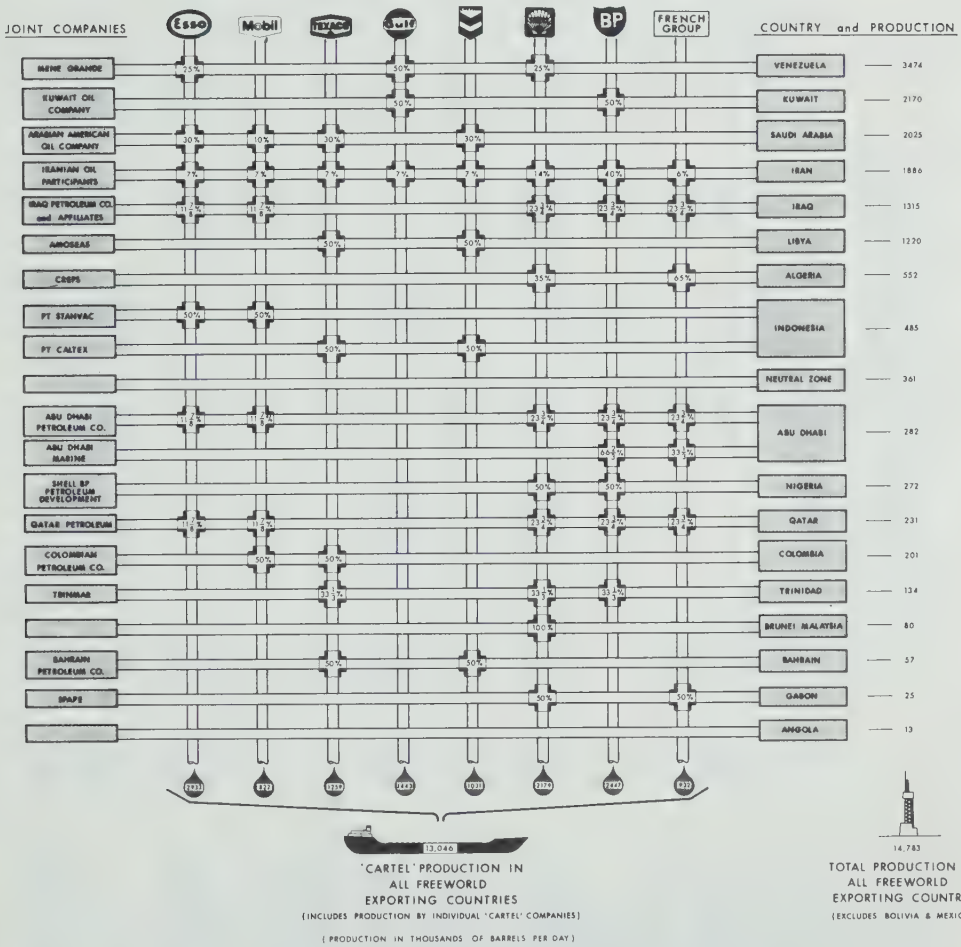




Table 168.  
**SHARE OF WORLD CRUDE OIL PRODUCTION  
 BY FIRM OR AGENCY IN EXPORTING COUNTRIES  
 1965**

(Thousands of Barrels Per Day)												
Rank In Net Exports	Country And Firm or Agency	Esso	Mobil	Texaco	Gulf	"Cartel" Group Std-Cal	Shell	BP Group	French Group	Indepen- dents	State Owned Oil Firm	TOTAL
1.	VENEZUELA				205		103					411
	Mene Grande*	103										1,298
	Creole Petroleum	1,298					962					962
	Compania Shell											146
	Mobil Oil		146									99
	Texas Maracaibo			99								83
	Texas Petroleum			83		55						55
	Chevron Oil											18
	Coro Petroleum			18						4		8
	S A Petroleum			4						385		385
	Various Independents									9		9
	Corvepet											
	TOTAL PRODUCTION	1,401	146	204	205	55	1,065			389	9	3,474
2.	KUWAIT											
	Kuwait Oil Company				1,085			1,085				2,170
	TOTAL PRODUCTION				1,085			1,085				2,170
3.	SAUDI ARABIA											
	Aramco	607½	202½	607½		607½						2,025
	TOTAL PRODUCTION	607½	202½	607½		607½						2,025
4.	IRAN											
	Iranian Oil Participants	127	127	127	127	127	253	722	108	90		1,808
	Assumed Independents									21		21
	Various State Owned Companies										57	57
	TOTAL PRODUCTION	127	127	127	127	127	253	722	108	111	57	1,886
5.	IRAQ											
	IPC and Affiliates	156	156				311	311	311	65	5	1,310
	INOC											5
	TOTAL PRODUCTION	156	156				311	311	311	65	5	1,315
6.	LIBYA											
	Amoseas			21½		21½						43
	Esso	567										567
	Mobil		101									101
	Various Independents									509		509
	TOTAL PRODUCTION	567	101	21½		21½				509		1,220

Rank In Net Exports	Country And Firm or Agency	Esso	Mobil	Texaco	"Cartel" Group Gulf Std-Cal	Shell	BP Group	French Group	Indepen- dents	State Owned Oil Firm	TOTAL
7.	U.S.S.R. Ministry of Petroleum TOTAL PRODUCTION									4,837 4,837	4,837 4,837
8.	ALGERIA CREPS CFP(A) CEP COPEFA SNPA CAREP SN Repal Various Independents TOTAL PRODUCTION					79		147 113 26 12 14 — 67			226 113 26 12 14 — 134 27 552
9.	INDONESIA Caltex Stanvac Shell Permiana Permigan Sorong Pertamin TOTAL PRODUCTION	28½	28½	160%	160%	70					321 57 70 23 2 12 12 485
10.	NEUTRAL ZONE AOC AMINOIL TOTAL PRODUCTION	28½	28½	160%	160%	70				37	180 181 361
11.	ABU DHABI Abu Dhabi Marine Abu Dhabi Petroleum TOTAL PRODUCTION	23	23			45	61 45	30 45			91 191
12	NIGERIA Shell-BP Petroleum Dev. Nigerian Gulf TOTAL PRODUCTION	23	23		26 26	123 123	123 123	75	10 10		282 246 25 272
13.	QATAR Qatar Petroleum Anglo Saxon Petroleum TOTAL PRODUCTION	23	23			46 37	46	46	10 10		194 37 231

Rank In Net Exports	Country And Firm or Agency	Esso	Mobil	Texaco	"Cartel" Gulf	Group Std-Cal	Shell	BP Group	French Group	Indepen- dents	State Owned Oil Firm	TOTAL
14.	COLOMBIA											
	Colpet		15	15		31						30
	Chevron						30					31
	Shell Conдор											30
	Texas Petroleum			31								31
	Sinclair & BP Colombian							16		16		32
	Colcito									18		18
	Ecopetrol										28	28
	Antex Petroleum									1		1
	TOTAL PRODUCTION	15	46	31			30	16		35	28	201
15.	TRINIDAD											
	Trinmar*			14½			14½					43
	Texaco Trinidad			48				14½				48
	Domoil											
	Shell Trinidad						13					13
	Trinidad Canadian Oils			1½						1½		3
	BP Trinidad											9
	Trinidad Petroleum Dev							9		2		17
	Premier Consolidated Oilfields							15		1		1
	TOTAL PRODUCTION		64 5/6				27½	38½		4½		134
16.	BRUNEI-MALAYSIA											
	Shell						80					80
	TOTAL PRODUCTION						80					80
17.	MEXICO											
	Pemex											
	TOTAL PRODUCTION											323
18.	BAHRAIN											
	Bahrain Petroleum Co. Ltd.			28½		28½					323	323
	TOTAL PRODUCTION			28½		28½						57
19.	GABON											
	Spafe*						12½		12½			25
	TOTAL PRODUCTION						12½		12½			25
20.	ANGOLA											
	Petrangol									6½	6½	13
	TOTAL PRODUCTION									6½	6½	13
21.	BOLIVIA											
	YPFB										9	9
	TOTAL PRODUCTION										9	9
	TOTAL FOR EACH OIL COMPANY	2,933	822	1,259	1,443	1,031	2,179	2,447	932	1,528	5,378	19,952

\* Share in production interests

Table 169.

**ESTIMATED SHARE OF CRUDE OIL PRODUCTION BY STATE OIL  
COMPANIES IN COUNTRIES WITH NET EXPORTS OF OIL  
1965**

Rank In Net Exports	Country	Total Crude Oil Production (000 B/D)	Principal State Oil Companies	Activities	Percent of Total Crude Oil Production
1	Venezuela	3,474	C.V.P.	EPRM	0.3%
4	Iran	1,886	NIOC	EPRM	
			SIRIP	EP	
			IPAC	EP	3.0%
			DOPCO	EP	
			FARSI	EP	
			IMINOCO	EP	
			IROPKO	EP	
			LAPCO	EP	
			PEGUPCO	EP	
5	Iraq	1,315	Government		
			Department	RM	0.4%
			INOC	EPRM	
7	U.S.S.R.	4,837	Ministry of		
			Petroleum Industry	EPRM	100.0%
8	Algeria	552	SONATRACH	EPRM	
			S.N. REPAL	EPR *	12.2%
			CREPS	EP *	
			CPA	EP *	
			S.R.A	R *	
9	Indonesia	485	SORONG		
			PERMINA	EPRM	
			PERMIGAN	EPRM	7.6%
			PERTAMIN	EPRM	
14	Colombia	201	ECOPETROL	EPRM	14.3%
17	Mexico	323	PEMEX	EPRM	100.0%
20	Angola	13	PETRANGOL	EPRM	50.0%
21	Bolivia	9	Y.P.F.B.	EPRM	100.0%

\* Includes indirect state participation through banks and other institutions, and participation by foreign state owned companies. BP and CFP however, have been counted as wholly private companies.

E — Exploration. P — Production. R — Refining. M — Marketing.

### Dominant Position of "Cartel" Outlets in World Marketing.

"Cartel" companies have large numbers of marketing outlets in most of the nations of the world. To illustrate this, a few countries have been selected, and the number of "Cartel" outlets in each is shown, together with the percentage that "Cartel" outlets are of the total outlets of each country.

Table 170.

### "Cartel" Marketing Outlets Compared With Total Marketing Outlets (By Country)

Country	Marketer	No. of Outlets	% of Outlets
United Kingdom	Shell-Mex & BP	18,916	
	Esso	11,031	
	Regent (50% Caltex, 50% Texaco)	4,347	
	Mobil	1,477	
	C.F.P. (Total)	354	
	Gulf	89	
		<u>36,214</u>	<u>88.9%</u>
France	C.F.P. (Total)	13,000	
	Shell	6,050	
	Esso	4,650	
	BP	3,500	
	Mobil	2,076	
	Caltex	1,800	
		<u>31,076</u>	<u>69.1%</u>
Italy	Shell	4,240	
	Esso	4,100	
	BP	2,876	
	C.F.P. (Total)	2,680	
	Caltex	2,384	
	Mobil	1,162	
	Gulf	600	
		<u>18,042</u>	<u>45.6%</u>
Netherlands	Shell	2,986	
	Esso	1,950	
	Caltex	1,604	
	BP	854	
	C.F.P. (Total)	310	
	Mobil	270	
	Gulf	360	
		<u>8,334</u>	<u>93.3%</u>



Country	Marketer	No. of Outlets	% of Outlets
Norway	BP	1,614	
	Esso	1,950	
	Shell	1,008	
	Mobil	300	
	Caltex	181	
	Gulf	20	
		<u>5,073</u>	<u>97.5%</u>
Sweden	Esso	2,200	
	Shell	2,207	
	Gulf	1,600	
	Caltex	1,246	
	BP	956	
	Mobil	234	
		<u>8,443</u>	<u>99.5%</u>
West Germany	Esso	6,300	
	Shell	5,970	
	BP	4,500	
	Caltex	1,366	
	C.F.P. (Total)	945	
		<u>19,081</u>	<u>44.5%</u>
Nigeria	Mobil	231	
	Shell	251	
	C.F.P.	230	
	Esso	210	
	BP	182	
		<u>1,104</u>	<u>100.0%</u>
Lebanon	C.F.P. (Total)	220	
	Mobil	163	
	Shell	668	
	Esso	50	
	Caltex	39	
	BP	5	
		<u>1,145</u>	<u>100.0%</u>
South Africa	Shell	2,023	
	Caltex	1,538	
	C.F.P. (Total)	440	
	Esso	31	
		<u>4,032</u>	<u>100.0%</u>
Australia	Shell	5,435	
	Mobil	3,950	
	BP	3,866	
	Caltex	2,436	
	Esso	1,600	
	C.F.P. (Total)	360	
		<u>17,647</u>	<u>93.8%</u>
India	Shell	3,663	
	Esso	1,750	
	Caltex	1,431	
		<u>6,844</u>	<u>100.0%</u>
Japan	Mobil	1,771	
	Esso	1,484	
	General (50% Esso)	935	
	Shell	2,163	
		<u>6,383</u>	<u>26.1%</u>
Argentina	Esso	2,075	
	Shell	2,026	
		<u>4,101</u>	<u>100.0%</u>
Puerto Rico	Shell	239	
	Mobil	106	
	Socal	58	
	Esso	??	
	Gulf	70	
		<u>473</u>	<u>100.0%</u>

Source: National Petroleum News, Mid-May, 1967.

(2) Cooperation of “Cartel” Companies

(a) Joint Production Operations

An outstanding characteristic of the seven “cartel” companies is their readiness to act together cooperatively in partnership in joint ventures. This cooperation is most apparent near the top of the pyramid where the degree of joint action and common purpose is almost suggestive of monopoly rather than oligopoly.

This is particularly evident in the joint production operations in exporting areas such as the Middle East and the Caribbean.

There are also cases of marketing joint ventures where they have shared available markets.

(b) The Oil “Cartel” and Marketing Joint Ventures

Standard Oil Co. of California and The Texas Co. each hold a 50% interest in California-Texas Corp., familiarly known as Caltex, formed to conduct joint marketing operations “east of Suez”. Caltex now markets throughout the Eastern Hemisphere, with the principal exception of West Africa. This company itself now has numerous subsidiaries engaged in transportation, refining and marketing.

In the United Kingdom, Shell-Mex and B.P. Limited is a joint marketing organization for the distribution and sale in the United Kingdom of the petroleum products of Shell and of British Petroleum. It has associated marketing companies in Scotland (Shell and B.P. Scotland Limited) and in Eire (Irish Shell and B.P. Limited).

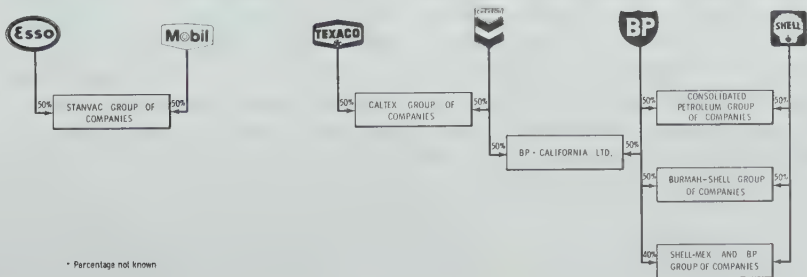
Joint marketing organizations also exist in India and Pakistan where Burmah Oil Co. Ltd., a member of the British Petroleum family, and the Shell Petroleum Company have equal share holdings in Burmah-Shell (India) and Burmah-Shell (Pakistan) which market petroleum products, and Burmah-Shell Refineries Limited which operates a refinery at Bombay.

Consolidated Petroleum Company is owned 50% by the Royal Dutch Shell group and 50% by British Petroleum Company. Consolidated and its many subsidiaries market petroleum products in South and East Africa, some Middle East countries, Cypress and Ceylon.

Socony Mobil Oil Company Inc., and Standard Oil Co. (New Jersey) each had a 50% interest in Standard Vacuum Oil Co., familiarly known as Stanvac, which until 1962, carried on extensive marketing operations in the east of Suez areas. The United States Department of Justice considered this corporate interconnection was too close, so it was dissolved by court order and each parent took over its half interest.

B.P.-California Ltd. is owned equally by British Petroleum Co. Ltd. and Chevron Chemical S. A. (a subsidiary of Standard Oil Co. of California). It owns an aromatics plant in Britain using feed stocks from an adjacent B.P. Refinery.

CHART 135  
Some Joint Marketing Ventures of the ‘CARTEL’ Group



### (c) The Oil "Cartel" and Cooperation By Agreement

In addition to cooperation in partnerships, there has been a history of co-operation between the seven "cartel" companies by agreements.

Chapters VIII and IX of the "Report to the Federal Trade Commission by its Staff" on the "International Petroleum Cartel", reports on studies of the marketing practices of the "cartel" companies during the 1930's.

An international agreement on marketing principles to be followed by these companies, known as the Achnacarry Agreement, was entered into in 1928. The principles of this agreement were applied in all kinds of markets, in large countries and small.

In each of the countries studied, a local "cartel" arrangement or agreement had been negotiated in accordance with the principles of the international agreement. In nearly all petroleum markets of the world outside the United States, subsidiaries and affiliates of the principal parties to the international agreements, Esso, Shell and B.P., were dominant forces. The local "cartel" arrangements could not have been negotiated, and would have been unworkable without the leadership and cooperation of the international oil companies. The "cartel" arrangements entered into universally included quota arrangements designed to freeze the market pattern, the historical position of the marketers, in accordance with that of a "base year" or "qualifying period". Other features of the "cartel" arrangements included provisions to protect the division of the market such as agreements to "respect" each other's customers, and to govern the fixing of prices, schedules or rebates, discounts, etc., and other selling conditions.

In the case studies described in Chapter IX, dealing with distribution quotas and marketing results in selected countries, the "cartel" companies held a major share of the market for gasoline as follows, in 1936:

Sweden .....	94%
United Kingdom .....	83%
Belgium .....	76%
Netherlands .....	83%
Tunisia .....	86%
Switzerland .....	72%
Peru .....	98%

In general, the other marketers in these countries were either, parties to the agreements, or respected their terms.

### (3) Cartel Influence on World Price

The "cartel" companies have followed a pricing system throughout the world for both crude oil and refined products which has tended to eliminate differences in delivered prices among the various sellers, so that at any given destination, the selection of one seller over another is a matter of complete indifference to the buyer insofar as price is concerned.

The "cartel" companies and their subsidiaries are bound together and inextricably intermingled by joint ventures in production, joint operations of pipelines and refineries, and marketing joint ventures so that they have common financial interests and common interests in the disposition of crude.

The producer of crude in one country who sells for export, and the refiner in another country who purchases, are usually both subsidiaries of the same parent and giving effect to a common purpose. Such transactions are obviously not at arms length and the overriding objective is the best interest of the international company which may not necessarily correspond to the best interests of either of the countries where some portion of its operations are conducted.

The combined revenues of the "cartel" companies exceeded the combined revenues of the governments of Great Britain, France, Germany, and Italy, plus a number of minor countries. Sales of products each year roughly equal the assets of the "cartel." The gross income of the company per employee is approximately \$40,000 to \$50,000 per year, which is about six times the average wage and salary expenditure per employee (including salaries of directors and executives,



and expenditures to provide housing, medical and social services to attract employees to remote production areas.)

The vast income of the eight international companies is based on an artificial price structure. For years, prices were based on the high costs of Texas fields, although the oil came mainly from low cost fields in Venezuela and the Near East. Texas crude has been estimated to cost approximately up to \$2.00 per barrel as compared with Kuwait crude estimated to cost less than 7c per barrel. Crude from either source was sold at the same price, which price was high enough to produce a profit on Texas crude.

The "cartel" companies allocate much of their profits to production and to foreign holdings. Esso nets less than 6% on its domestic assets, but obtains 15% on its Venezuela operation and 18% from the Eastern Hemisphere. Gulf earns less than 10% on its U.S. operations but 33% on Kuwait. Mobil obtains 4% on its U.S. operations, 10% in the Caribbean and 13% in the Eastern Hemisphere. Creole Petroleum, the Esso subsidiary producing in Venezuela, paid over \$3.00 in dividends for every dollar it paid in wages and salaries including those of executives.

The original "big three" of the international "cartel" were Royal Dutch Shell, British Petroleum, and Standard of New Jersey. It was in their common interest to establish a high price for crude oil, and they controlled the world supply available for export.

By an agreement in 1928 known as the Achnacarry Agreement, they established an objective of price control through production control. With discoveries of new production in Middle East countries and in Venezuela four more American companies became members of the "cartel" namely — Standard of California, Texaco, Gulf and Mobil. The seven were soon completely interlocked in joint production combines and joint marketing agreements.

Pursuant to the Achnacarry Agreement the international oil companies agreed to price their crude at the price of U.S. export crude at Gulf of Mexico ports in Texas. Accordingly, world wide prices were based on high cost Texas crude plus transportation costs from Texas ports. These prices, fixed to give a profit on Texas crude, assured higher returns for the much cheaper crude of Venezuela and the Middle East. Under the stress of the war in 1943, the British Government finally succeeded in persuading the "cartel" to quote a price for fuel for the British Navy, at Abadan in Iran. Although the price quoted was identical with quotations at Texas ports, it had the advantage of eliminating the "phantom freight charge" based on tanker rates from Texas to India rather than from Abadan to India.

The American government with its post war "Marshall Plan" under which oil was purchased for various countries in Europe, exerted further pressures so that finally, prices including tanker rates were equalized as between Texas ports and Persian ports for markets in western Europe. Through pressures such as these, the system of basing world oil prices on the price of Texas export crude has gradually been modified.

However, the price structure for crude oil remains high, there is a remarkable uniformity of price world wide, and the price appears to bear little or no relationship to widely varying costs of production in different locations.

The accounting practices of the oil industry allocate much of its profits to production, leaving narrow profit margins in refining and marketing.

This discourages new companies from entering the business of refining and marketing if they have to buy crude at high prices and operate their refineries on narrow margins. However, if a company can find low cost crude which it can refine or sell to a refinery at high world prices, the economics for such an integrated venture are much more attractive. But the small number of companies which have the risk capital to gamble on foreign exploration and production to find the low cost crude, severely limits the number of potential competitors.

#### **(4) "Cartel" Influence on Political Power**

In addition to unequaled economic power, the "Cartel" has considerable influence on the exercise of political power.



The British government dropped its paratroopers in Kuwait to protect the interests of British Petroleum Limited in which it holds approximately 51% of the shares.

When Prime Minister Wilson announced British defence cuts and withdrawal of troops from Persian Gulf bases, the "Times" reported that the Sheik of Abu Dhabi offered to pay the entire cost of maintaining British forces in his area, — and that other Persian Gulf sheiks were also offering to share costs out of their oil revenues.

It is not unreasonable to expect that the American members of the "Cartel" such as Esso and the Rockefeller interests, Gulf and the Mellon interests, etc. would have their international problems sympathetically considered and appropriately protected by the American State Department. Similarly, the Royal Dutch Shell group of companies would have an influential voice with the governments of both Holland and Britain.

The French government would be conscious of factors affecting the welfare of C.F.P. in which it has a 35% stock interest and 40% voting rights, and E.R.A.P., which it owns outright and which in turn controls a series of oil companies.

In several other countries, the operations of the "Cartel" provide the principal source of revenue for the country, such as Iraq, Iran, Saudi Arabia, Kuwait, Venezuela and others. In such cases, the economic well being of both the country and the "Cartel" are dependent on common interests which have a decided influence on the policies of those countries.

In Peru in July of 1967, a Congressional Resolution was passed expropriating two oil concessions from International Petroleum Corporation, a subsidiary of Standard Oil of New Jersey. This resolution was implemented by a subsequently negotiated agreement between the government of Peru and International Petroleum Corporation, which detailed reciprocal conditions for returning the oil concessions to Peru. In October of 1968, the government of Peru was overthrown by a military coup. A spokesman for the new military government stated: "The armed forces took power in Peru because of irregularities" in an agreement the former government recently made with an American oil company. The new revolutionary government, on assuming power, cancelled the agreement.

In the Biafran area of Nigeria tremendous oil reserves have recently been discovered, which some have estimated could be as large as those of Venezuela, the largest of any country in the world. Britain, as a supporter of Nigeria could expect favorable consideration by the Nigerian Government in the granting of oil concessions. Colonel Ojukwu, the Biafran leader, in a television interview stated that oil was one of the causes contributing to the present war. An article in "Time" in the December 6, 1968 issue entitled "Keeping Biafra Alive" stated:—

"The French do not want publicity on their role in Biafra. But why are they so intent on keeping the war alive? A businessman here says the reason is Biafran oil: 'A million barrels of oil a day, or about one-third the production capacity of Kuwait. That kind of oil production is worth gambling for, even if the odds are against you.' In addition, Charles de Gaulle relishes any chance he finds to annoy the British, who are backing the Nigerian government."

Even in Canada, the subsidiaries of the "cartel" are included among our largest corporations and our biggest taxpayers. As important corporate citizens wielding vast economic power which is vital to the economy, they properly have a significant influence on governments at various levels.

## (5) "Cartel" Influence on National Oil Industry

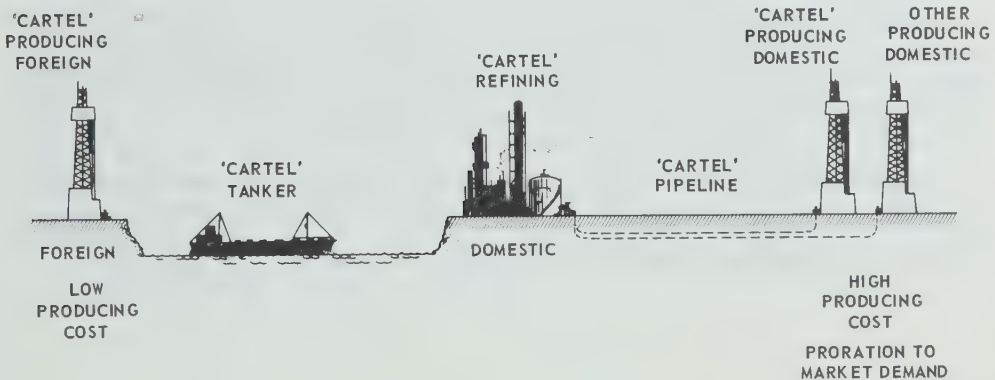
Within most countries:

- oil imports are obtainable only from members of the oil "cartel", at world prices acceptable to the "cartel";
- the refineries which import oil belong to the "cartel" so the import of crude from a foreign subsidiary of the same parent is not a true arms length transaction;
- the tankers carrying imported oil and the pipelines carrying domestic oil are owned in part by subsidiaries of the "cartel", which accordingly has a voice in fixing their respective rates;
- subsidiaries of the oil "cartel" control a majority of the national production which they transfer to their refining divisions or subsidiaries at "prices" conforming to the price of imported oil at world prices acceptable to the "cartel";
- national major integrated companies (if any) produce only a minor fraction of the nation's oil so they accept and conform to pricing of the "cartel";
- the fringe of smaller oil companies operating in the country (if any) have an insignificant proportion of the business and generally they conform to the existing practices and price structure.

CHART 136

### "CARTEL REFINING" CAN BE SUPPLIED

BY FOREIGN CRUDE OR BY DOMESTIC CRUDE



If "Cartel Refining" uses foreign crude produced at low cost "Cartel Producing Foreign" may earn a large profit, (e.g. fifty cents per barrel).

If "Cartel Refining" buys foreign crude, it can buy all its requirements from "Cartel Producing Foreign" so the "Cartel" will earn the profits of production on all oil produced.

If "Cartel Refining" uses domestic crude produced at high cost "Cartel Producing Domestic" may earn a smaller profit (e.g. twenty-five cents per barrel).

If "Cartel Refining" buys domestic crude from an area with proration to market demand, its purchases are prorated among "Cartel Producing Domestic", and "Other Producing Domestic" so the "Cartel" earns the profits of production on only a part of the oil produced.

If it is to the advantage of the "Cartel" that "Cartel Refining" purchase from "Cartel Producing Foreign", the "Cartel" could encourage this result by various methods, including:—

- reducing rates of "Cartel Tanker"; or
  - increasing rates of "Cartel Pipeline"; or
  - decreasing the price paid by "Cartel Refining";
- any of which adversely affect the economics of buying from "Producing Domestic".

## **(6) Challenges to the Dominance Of the "Cartel"**

Russia has been rapidly increasing its production, its reserves and its distribution systems. Exports from Soviet Bloc countries are steadily increasing. J. H. Carmical, Petroleum Editor for the New York Times wrote: "Growing competition from Russian oil is casting a shadow over many of the markets of the free world that historically have been supplied by the international petroleum companies."

National oil companies have been created in 40 or more nations, mainly socialist countries or countries in the under-developed parts of the world. These national oil companies are in part an effort to escape domination by the "cartel".

The Organization of Petroleum Exporting Countries (OPEC) has been formed by eight countries with a view to bargaining on behalf of its members so that they will get better and more uniform treatment from the "cartel". Venezuela, Libya, Indonesia, and five of the Middle Eastern producing countries, are members.

Some of the new national companies are producers, and some are consumers. This is creating a situation where there is at least the possibility of direct agreements between a producing country and a consuming country outside the "cartel" structure.

Independent American companies, encountering high costs and restricted opportunities at home, increasingly began to explore in other countries to find new fields of cheap crude. By 1960 some 200 of such companies were exploring in approximately 90 countries and some of them have found oil in substantial quantities. Oil from such sources began seeking markets outside the "cartel" structure. This, combined with the growth of the national oil companies and the re-entry of the Soviets into world markets, has had an impact on the world monopoly of the "cartel".

The oil for export from North Africa and Nigeria now exceeds the exports from the Caribbean. With African Oil and Russian Oil, there are now four export sources instead of two. If companies outside the "cartel" succeed in developing and retaining new fields of export crude, there could in time be a source outside the "cartel" for a significant percentage of world exportable oil.

Notwithstanding these relatively recent developments, the dominance of the international "cartel" companies with their gigantic complex of world wide production, refining and marketing facilities, continues to be the most prominent feature of the international petroleum industry.



## CHAPTER 45. "CARTEL" SUBSIDIARIES IN CANADA

### (1) The Members of the Oil "Cartel", & the French Group

The seven "cartel" companies, and the French Group, being the eight international companies which dominate the world oil industry, and the trade names familiar to us under which their products are sold are as follows:

Company	Trade Name
Standard Oil Company, New Jersey -----	Esso
The Royal Dutch - Shell Group of Companies -----	Shell
Gulf Oil Corporation -----	B.A., Royalite, Gulf
The Texas Company -----	Texaco
Standard Oil Company of California -----	Chevron
Socony Mobil Oil Company Inc. -----	Mobil
British Petroleum Company Limited -----	B.P.
The French Group (C.F.P. & E.R.A.P.) -----	Total

Most of these eight international companies have literally hundreds of subsidiaries and operating companies.

The various operating companies do a wide variety of jobs for their international parents, including acquiring mineral rights, exploring, producing, refining, manufacturing, transporting, marketing, and conducting research. Some subsidiaries are concerned with only one main activity, while others are themselves fully integrated oil companies engaged in exploration, production, refining, transportation and marketing. Some subsidiary companies undertake such auxiliary activities as the ownership and licensing of patents in refining etc., the administration of pension funds, or the ownership of real estate. Many companies are joint ventures where two or more out of the eight international companies each holds a percentage of the shares of the operating company. In some of these companies, the international parent may own only a part of the shares, the remainder being held by other oil companies or by public investors or by a national government.

There are many reasons for the existence of such a large number of subsidiary companies. Conditions vary from country to country and from one activity to another. If the business of a company is confined to a single country, then that company only has one government to deal with, and the requirements of that government are only applicable to the company which operates within its national boundaries. Thus, one subsidiary, being only a small fraction of the activities of any international company, is all that can be directly affected by the actions of any national government.

Of the eight international companies, five are from the United States, one is British, one is Dutch and one is French.



## **(2) Standard Oil Company, New Jersey**

Esso is the largest oil company in the world. It has fully integrated operations in the U.S. and in Canada where it is the market leader. Esso is second only to the Royal Dutch Shell group in terms of sales outside North America. Roughly a third of its profits come from Creole Petroleum in Venezuela, a third from the Middle East, and a third from U.S. operations of Humble Oil and Refining.

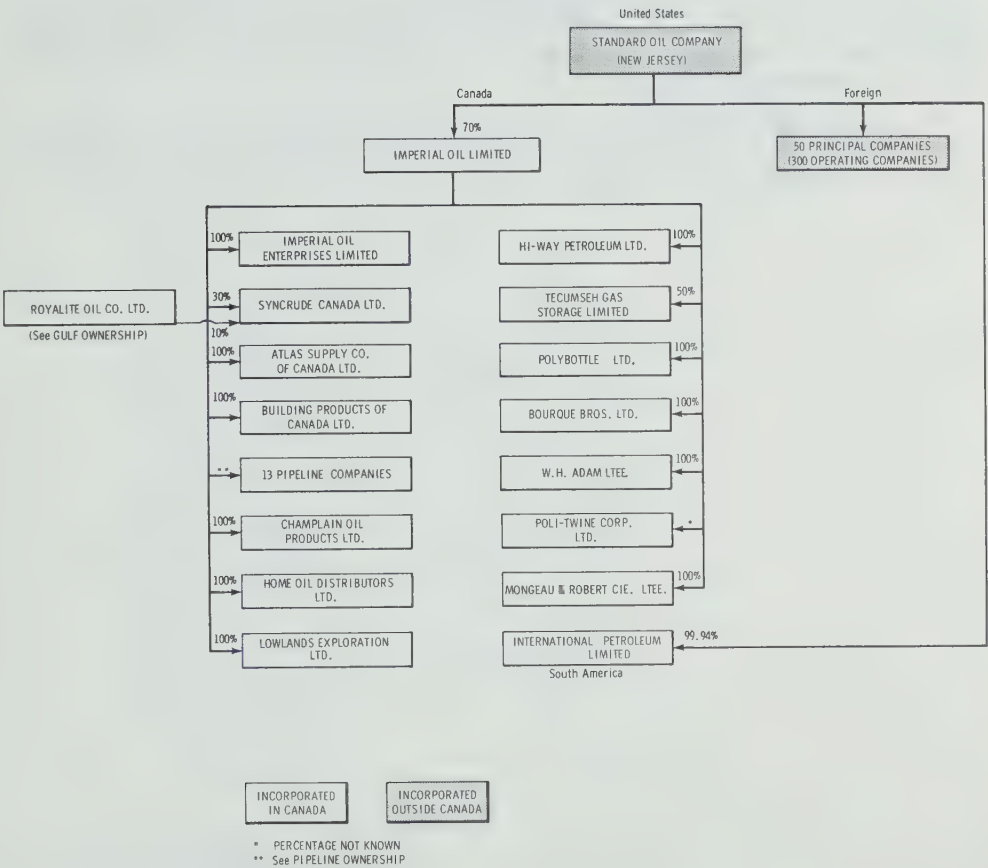
**1. Production.** Esso has major production interests in Venezuela, Saudi Arabia (a 30% interest in Armaco) and Libya, 7% in the Iranian Consortium, 12% in the Iraq Petroleum group, the Western Hemisphere, Europe and Indonesia.

**2. Marketing.** Esso markets world wide, although it is less well represented in the East of Suez area where, until 1962, refining and marketing operations were carried out jointly with Mobil through a jointly owned subsidiary, the Standard Vacuum Oil Company.

**3. Canadian Operations.** Esso's main Canadian subsidiary, Imperial Oil Limited, is a fully integrated oil company and is the largest oil company in Canada. Furthermore, Imperial Oil is the largest company of any kind in Canada according to the Financial Post in its ranking by sales. Public shareholders hold a minority of its shares. Imperial Oil Enterprises is a wholly owned subsidiary, as is Home Oil which markets in B.C., and Champlain Oil which markets in Quebec and Ontario.

CHART 137

ESSO OWNERSHIP  
1968



### **(3) The Royal Dutch Shell Group**

A Dutch company and a British company are the parents of this group, which through two holding companies operate over 500 subsidiary companies in various parts of the world.

**1. Production.** Shell's largest production is in the Lake Maracaibo area of Venezuela. It also has a 23.75% share in the Iraq Petroleum Company's group, a 14% share in the Iranian Consortium, substantial production in the United States and Canada, and production in Europe, Algeria, Nigeria, Indonesia and the Far East. In 1960, about half of its production came from Venezuela, a fifth from the Middle East, and a fifth from the United States and Canada.

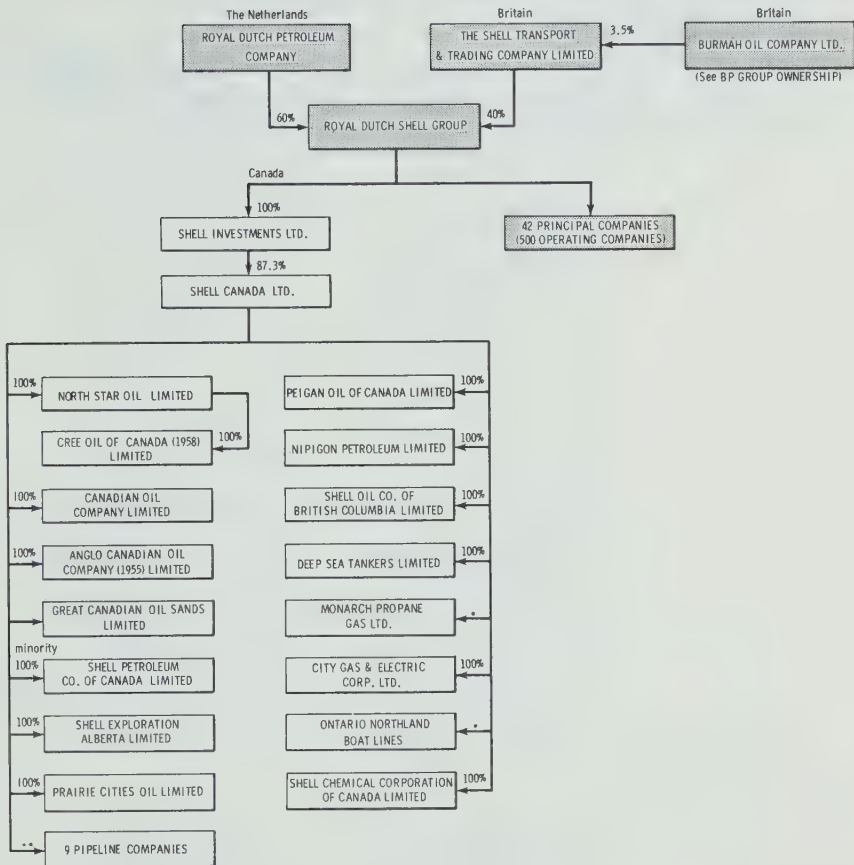
**2. Marketing.** Shell Companies market in most countries throughout the world, and in certain areas, jointly with British Petroleum. In the United States, Canada and France, Shell owns a majority of the shares of its subsidiaries, the balance being held by public shareholders. Shell has marketing subsidiaries which are jointly owned with British Petroleum for marketing in England, Scotland, Ireland, India, Pakistan, South and East Africa, some Middle East countries, Cypress and Ceylon. In most European countries, Shell markets through wholly owned subsidiaries.

**3. Canadian Operations.** Shell Canada Ltd. is one of the 500 subsidiaries of the Shell Group and it is a fully integrated company which explores, produces, transports, manufactures and markets oil products and chemicals in Canada.

# CHART 138

## SHELL OWNERSHIP

### 1968



INCORPORATED  
IN CANADA

INCORPORATED  
OUTSIDE CANADA

\* PERCENTAGE NOT KNOWN

\*\* See PIPELINE OWNERSHIP



#### **(4) Gulf Oil Corporation**

Gulf is a major fully integrated company in both the U.S.A. and in Canada.

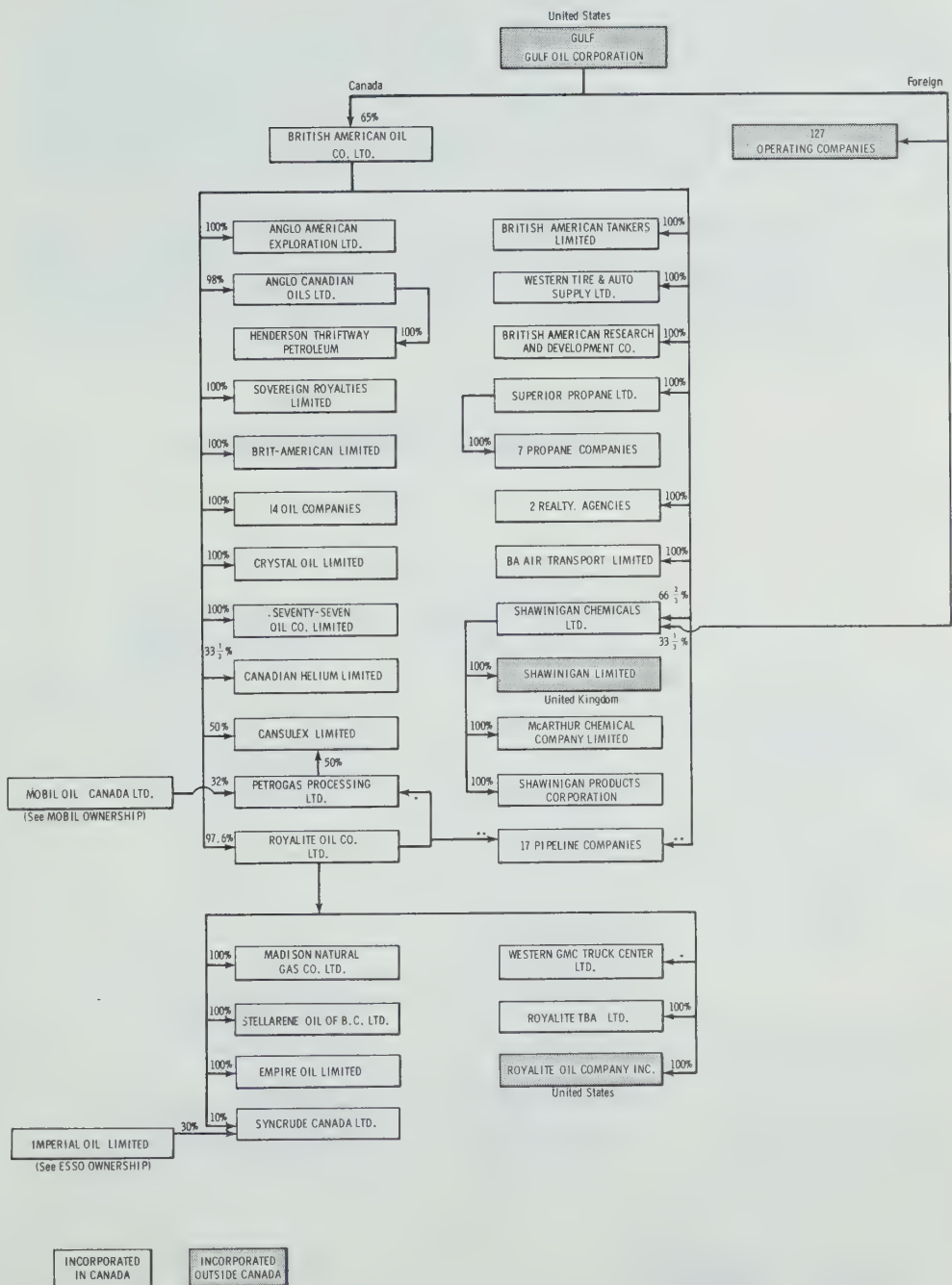
**1. Production.** Gulf's main interests outside North America are in production. Its chief source is a 50% share in the Kuwait Oil Company. It also has a 7% share in the Iranian Consortium and an interest in Venezuela through a 50% share in Mene Grande Oil Co. Gulf is a major seller of crude oil throughout the world. In 1960, Gulf's production was 61% in the Middle East, mostly Kuwait, 13% in Venezuela and 25% in the United States and Canada.

**2. Marketing.** Gulf markets through fully integrated companies in both the United States of America and Canada. It has small but rapidly developing marketing interests in the Eastern Hemisphere.

**3. Canadian Operations.** Gulf holds a majority of the shares of British American Oil Company Limited which is a fully integrated company and which in turn owns a majority of the shares of Royalite Oil Co. The latter has large marketing facilities particularly in Western Canada.

CHART 139

GULF OWNERSHIP  
1968



\* PERCENTAGE NOT KNOWN  
\*\* See PIPE LINE OWNERSHIP

(5) **Texaco Inc.**

Texaco conducts fully integrated operations in the United States and in Canada.

**1. Production.** Outside North America, Texaco has major production interests in the Middle East, having a 30% holding in Aramco and a 7% interest in the Iranian Consortium, and in the Caribbean area it has production in Venezuela, Colombia and Trinidad.

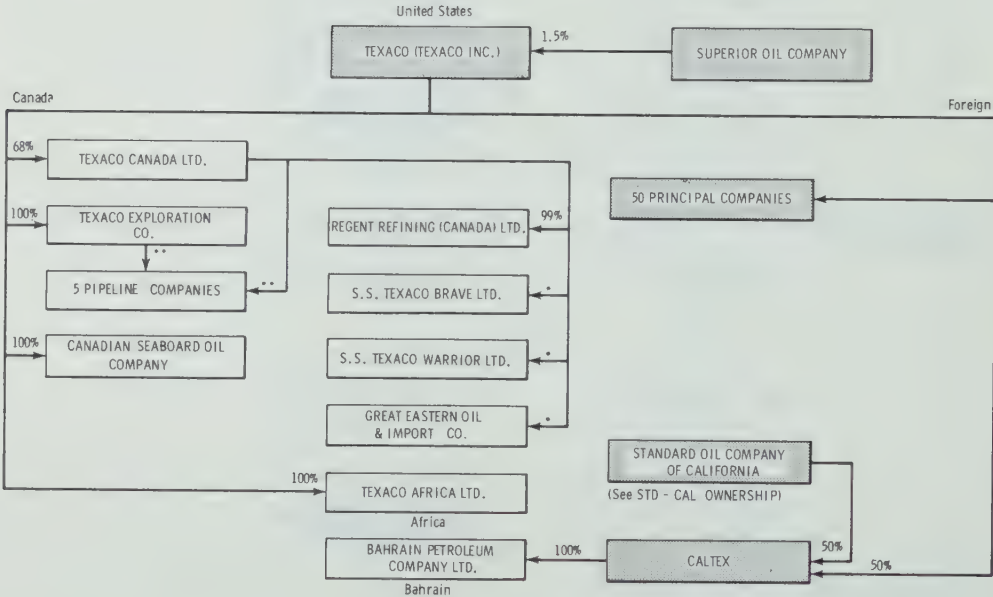
**2. Marketing.** Texaco markets throughout the Western Hemisphere and West Africa. In the United Kingdom, Texaco markets jointly with Caltex, a subsidiary which is jointly owned by Texaco and Standard Oil Company of California. In the rest of the world, Texaco operations are carried on through the jointly owned Caltex organization. Caltex itself is an integrated company with production in the Middle East at Bahrain, in Indonesia, and Libya, and which markets throughout the Eastern Hemisphere with the principal exception of West Africa.

**3. Canadian Operations.** Texaco owns a majority of the shares of Texaco Canada Ltd., a fully integrated company which engages in refining and marketing. The parent company also owns all the shares of Texaco Exploration Company and of Canadian Seaboard Oil Co., both of which engage in exploration and production in Canada.

CHART 140

**TEXACO OWNERSHIP**

**1968**



INCORPORATED IN CANADA      INCORPORATED OUTSIDE CANADA

\* PERCENTAGE NOT KNOWN  
\*\* See PIPELINE OWNERSHIP

(6) Standard Oil Company of California

This company has fully integrated operations in the United States and in Canada.

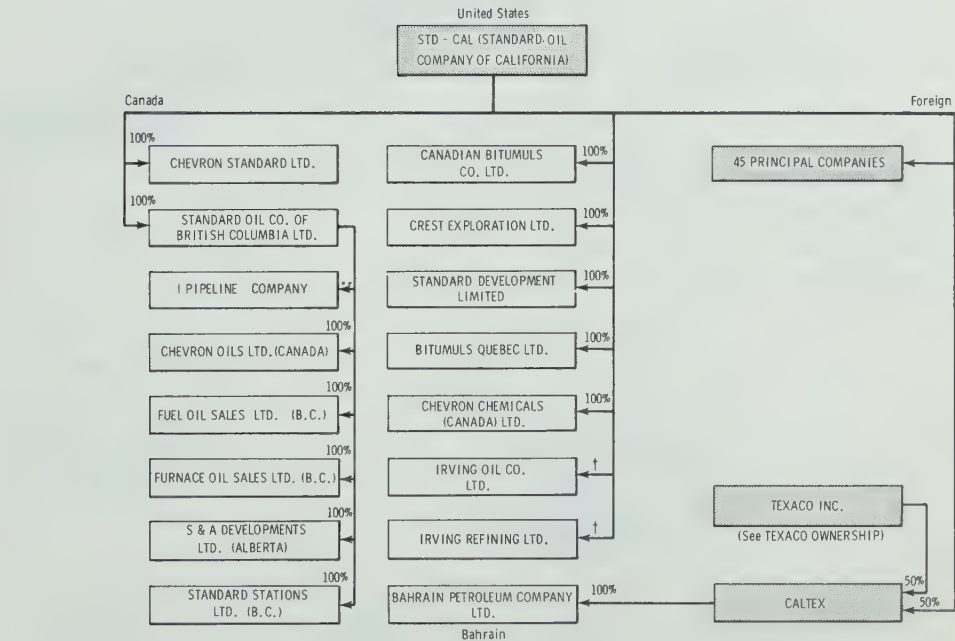
**1. Production.** Its principal source of production outside North America is in Saudi Arabia where it holds a 30% interest in Aramco. It and Texaco each have a 50% interest in the Bahrain Petroleum Company Ltd., and in the California Texas Corporation and its numerous subsidiaries and affiliates known as Caltex. Caltex is an integrated company with production in Bahrain, Indonesia and Libya. In 1960, the Eastern Hemisphere was the source of more than half of this company's production, a seventh came from California, and a ninth came from Canada and the Caribbean.

**2. Marketing.** Outside North America, its main refining and marketing operations are conducted through Caltex which markets throughout the Eastern Hemisphere, with the principal exception of West Africa. Standard of California has minor marketing interests in Central and South America.

**3. Canadian Operations.** It owns 100% of Standard Oil Company of B.C. which has extensive marketing operations in British Columbia and a few service stations in Alberta. It owns 100% of Chevron Standard Ltd. which has extensive production in Alberta. It markets in Eastern Canada through Irving Oil Co. Ltd. and Irving Refineries Ltd. in which it participates jointly with the Irving interests.

CHART 141

STD-CAL OWNERSHIP  
1968



INCORPORATED IN CANADA      INCORPORATED OUTSIDE CANADA

† JOINTLY OWNED WITH IRVING INTERESTS

\*\* See PIPELINE OWNERSHIP



**(7) Socony Mobil Oil Company Inc.**

This company is a major, fully integrated operator in the United States. It started out as Standard Oil Company of New York, abbreviated this to Socony, merged to become Socony-Vacuum, and then changed to Socony Mobil.

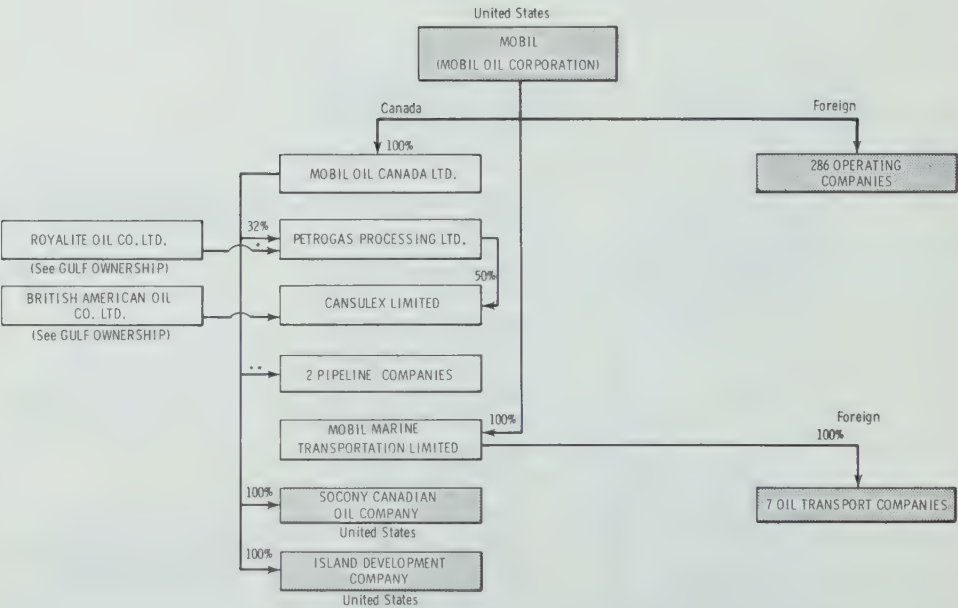
**1. Production.** Mobil has production in Venezuela, Colombia, Algeria and Libya, Europe and Indonesia, and 11.875% interest in the Iraq Petroleum group of companies with production in several countries of the Middle East.

**2. Marketing.** Mobil markets in the Western Hemisphere, Europe, the Middle East, Africa and the Far East. Until 1962, operations in the East of Suez areas, except for the Middle East, were carried out in conjunction with Esso through their jointly owned subsidiary Standard Vacuum Oil Co.

**3. Canadian Operations.** Socony Mobil of Canada Ltd., a wholly owned subsidiary, is one of the major producers in Canada.

CHART 142

**MOBIL OWNERSHIP  
1968**



INCORPORATED  
IN CANADA

INCORPORATED  
OUTSIDE CANADA

\* PERCENTAGE NOT KNOWN

\*\* See PIPELINE OWNERSHIP

(8) **British Petroleum Company Limited**

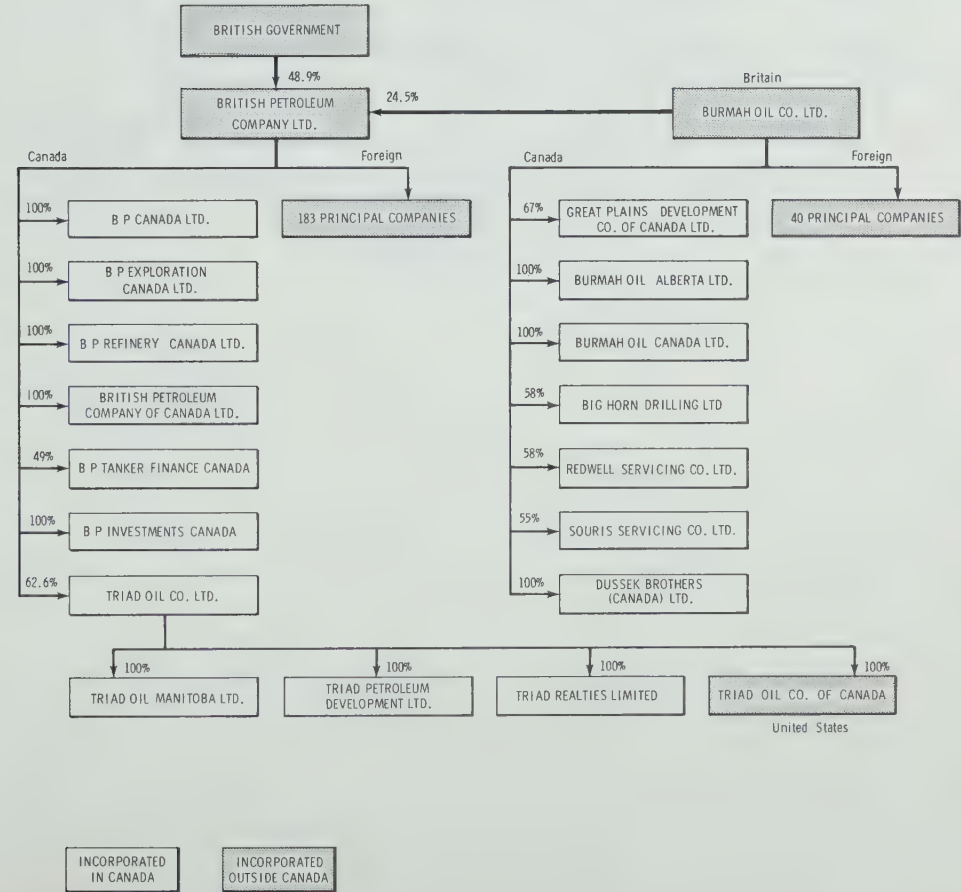
B.P. was originally named the Anglo Persian Oil Co., later the Anglo Iranian Oil Co., and the British Government holds a majority interest of approximately 51%.

**1. Production.** B.P. is one of the largest producers in the Middle East; its main interest being a 50% holding in Kuwait Oil Co., 40% in the Iranian Consortium, 23.75% in the Iraq Petroleum group of companies and 66.7% in the Abu Dhabi Marine areas. It has important joint production interests with Royal Dutch Shell in Nigeria. B.P. is accordingly a major seller of crude oil world wide.

**2. Marketing.** B.P. markets in Europe, Africa, Australasia and Canada, and has smaller operations in the Caribbean and Southeast Asia. In England, Scotland, Ireland and in South and East Africa, B.P. markets jointly with the Royal Dutch Shell Group.

**3. Canadian Operations.** B.P. is engaged in marketing in Eastern Canada through two wholly owned subsidiaries, B.P. Canada Ltd. and B.P. Refinery Canada. B.P.'s production in Western Canada is through its subsidiaries Triad Oil Co. Ltd., Triad Oil Manitoba Ltd., B.P. Exploration Canada Limited, and formerly through Devon Palmer Oils Ltd. and Tidewater Canadian Oils Ltd. Its related company, Burmah Oil, produces in Canada through its subsidiaries, Great Plains Development Co. of Canada Ltd., Burmah Oil Alberta Ltd., etc.

CHART 143  
**B.P. GROUP OWNERSHIP**  
**1968**



## **(9) The French Group**

The French Government actively participates in the international oil industry through two large companies, each of which has numerous subsidiaries.

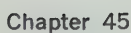
Compagnie Française des Petroles, commonly known as C.F.P., was formed originally to hold the interest of the French Government in the Iraq Petroleum Company. The French Government has a 35% stock interest with 40% voting rights in C.F.P. The French Government also owns 100% of E.R.A.P. and its chain of oil interests.

**1. Production.** C.F.P.'s major production area is still Iraq, where the company has a 23.75% in all of the Iraq Petroleum Company group of companies, production in Iran through a 6% share in the Iranian Consortium, and in Algeria.

**2. Marketing.** C.F.P. markets in France, the rest of Europe, many African countries and in Australia, under the brand name "Total".

**3. Canadian Operations.** C.F.P. has minor production interests in Canada through French Petroleum Company of Canada Ltd., which is engaged in exploration and production. E.R.A.P. operates in Canada through its subsidiaries Auxerap of Canada Ltd. and Petropar Canada. E.R.A.P. and C.F.P. jointly operate in Canada through Aquitaine Company of Canada Limited, which has interests in Banff Oil Limited, Petrogas Processing Limited, etc.

## FRENCH GROUP OWNERSHIP 1968





## CHAPTER 46. THE ALBERTA OIL PERSPECTIVE

Eight gigantic international oil companies dominate the world oil industry (see Chapter 42).

The Federal Trade Commission of the United States, in a lengthy report entitled "The International Petroleum Cartel" described the operations of seven of these companies, and for convenience of reference the Committee will use the term "Cartel" to designate these seven companies. The eighth company is the French Group.

Subsidiaries of all eight of these companies operate in Alberta.

Just as the eight dominate the world oil industry, so do their subsidiaries dominate the Alberta oil industry.

Four of the eight have fully integrated operations in Alberta, being engaged in producing, refining and marketing.

The remaining four have limited operations in Alberta, being engaged mainly in production.

The subsidiaries of the four "Cartel" companies which engage in marketing and refining in Alberta:—

- (a) own all the refineries operating in Alberta;
- (b) sell through their brand name retail outlets, 86.5% of gasoline used by consumers in Alberta;
- (c) have "tied" 87.9% of all service stations and other retail outlets in Alberta to their brand names;
- (d) provided refined products to all other marketers in Alberta, (including brand name service stations, off-branders and department stores) either by product exchange agreements or by sales of product.

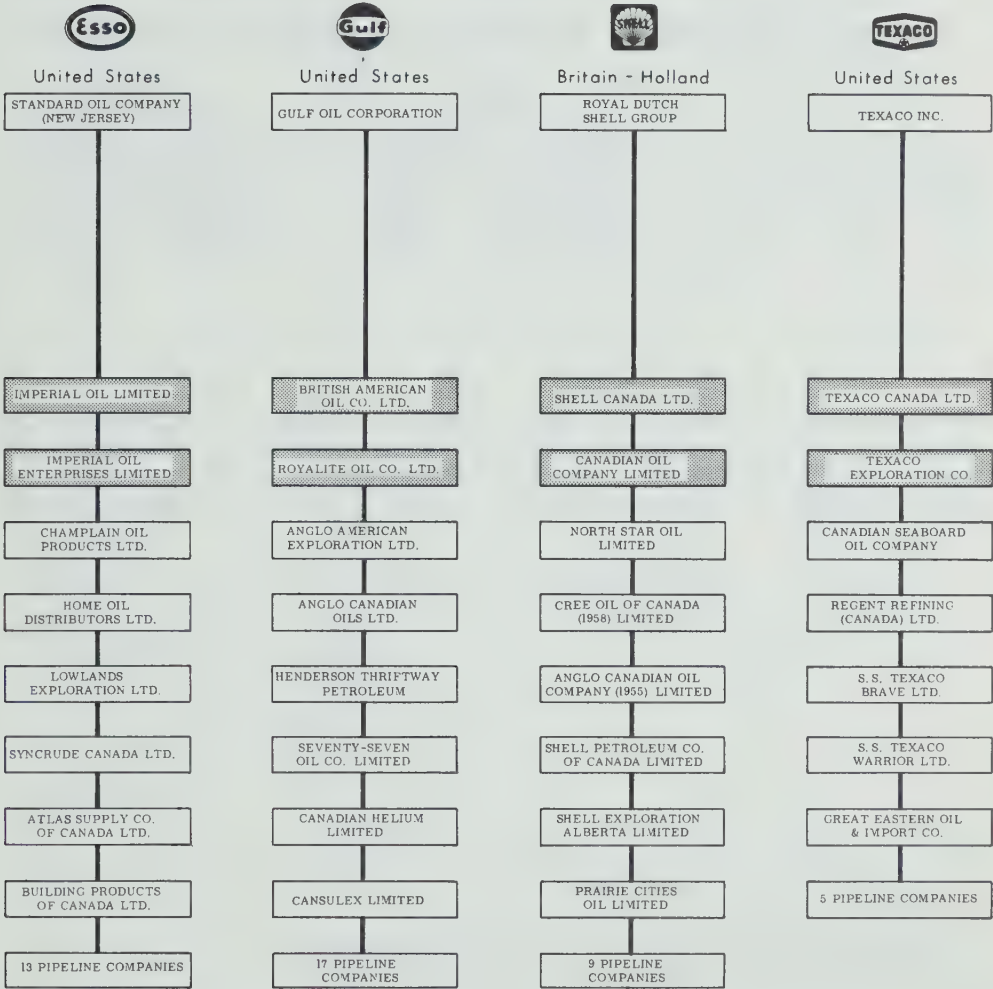
	1965		1965	
	GASOLINE SOLD		RETAIL OUTLETS	
	Gallonage	Percent	Number	Percent
"Cartel" Subsidiaries -----	222,756,000	86.5	2,761	87.9
Other Marketers -----	34,680,000	13.5	378	12.1
All -----	<u>257,436,000</u>	<u>100.0</u>	<u>3,139</u>	<u>100.0</u>

Three of these subsidiaries each reported an income exceeding that of the Alberta Government.

The aggregate income reported by these four was five times the income of the Alberta Government in the same year.

CHART 145

'CARTEL' COMPANIES WHOSE SUBSIDIARIES PRODUCED, REFINED, AND MARKETED  
IN ALBERTA - 1965



( See detailed ownership charts in the chapter entitled )  
" World Oil Perspective "

The remaining four, being three "Cartel" companies and the French Group, have limited operations in Alberta and

- (a) are engaged mainly in exploration and production;
- (b) do not operate refineries in Alberta;
- (c) do not engage in retail marketing in Alberta except for Standard Oil Company of B.C. which has only eight service stations in this Province.

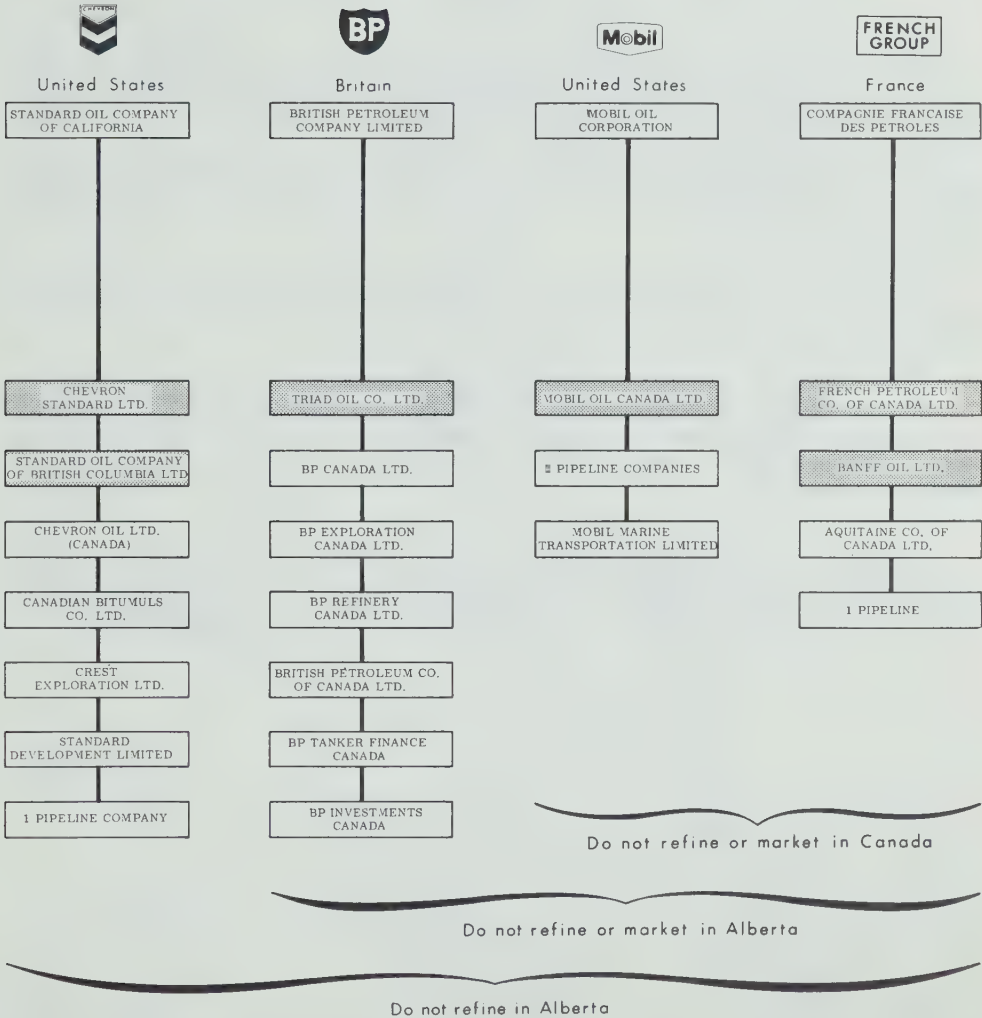
In 1965, through their subsidiaries, the seven "Cartel" companies and C.F.P.

- (a) owned approximately 53 percent of Alberta production (in 1965);
- (b) owned approximately 55 percent of Alberta reserves (in 1965); increasing to 67 percent in 1967;
- (c) held 44.8 percent of all petroleum and natural gas leases in Alberta (in 1967);
- (d) held 47.6 percent of all petroleum and natural gas reservations in Alberta (in 1967).

	1967 LEASES		1967 RESERVATIONS	
	Acreage	Percent	Acreage	Percent
"Cartel" subsidiaries	13,706,538	44.8	19,395,828	47.6
Other companies	16,898,069	55.2	21,332,648	52.4
All	<u>30,604,607</u>	<u>100.0</u>	<u>40,738,476</u>	<u>100.0</u>

# CHART 146

'CARTEL' COMPANIES AND FRENCH GROUP WHOSE SUBSIDIARIES HAD LIMITED OPERATIONS IN ALBERTA - 1965



( See detailed ownership charts in the chapter entitled )  
" World Oil Perspective "



The influence of "Cartel" subsidiaries in the Canadian oil industry extends beyond their own vast direct operations.

Cartel subsidiaries:—

- (a) own interest in major pipelines connecting Provinces and connecting Canada with the United States;
  - (b) own interests in local pipelines;
  - (c) are represented by directors on the boards of major pipelines and local pipelines where they have a voice in determining rates and policy;
  - (d) influence the views of directors of other oil companies whose directors sit on the same boards and discuss company and industry problems.
- 

The reported revenue of the international "Cartel" companies in 1965 was 5 times larger than the revenue of the Government of Canada, and almost 100 times larger than the revenue of the Government of Alberta.

The reported revenue in 1965 of the subsidiaries of the "Cartel" companies which refine and market in Alberta was 5 times larger than the revenue of the Government of Alberta.

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Over half of the revenue of the Government of Alberta came directly from the oil industry.

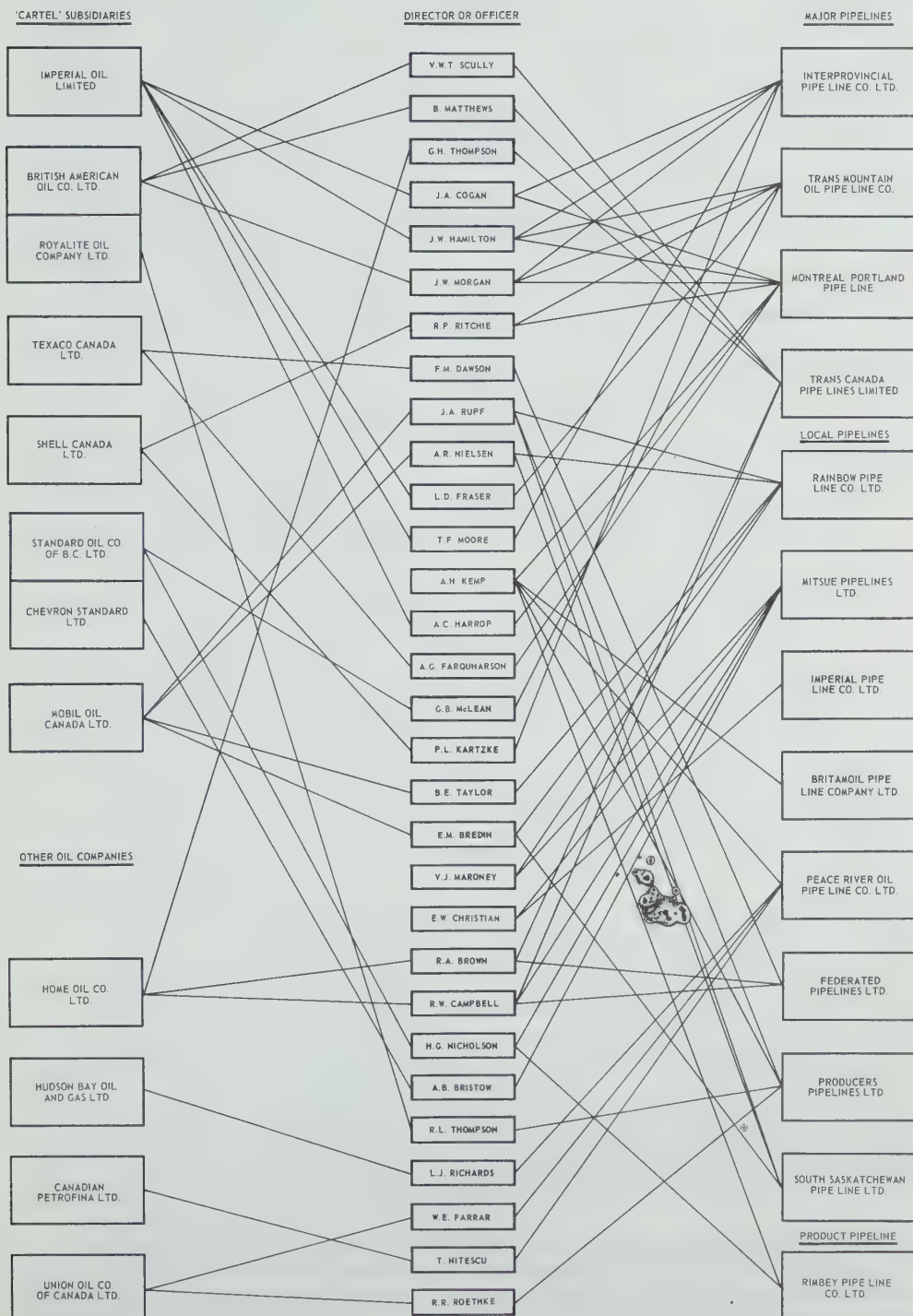
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The municipal governments of Alberta derive a substantial portion of their revenue from property taxes on refineries, gas plants, pipelines, service stations, bulk agencies, office buildings, oilfield installations, and other property of the oil companies.

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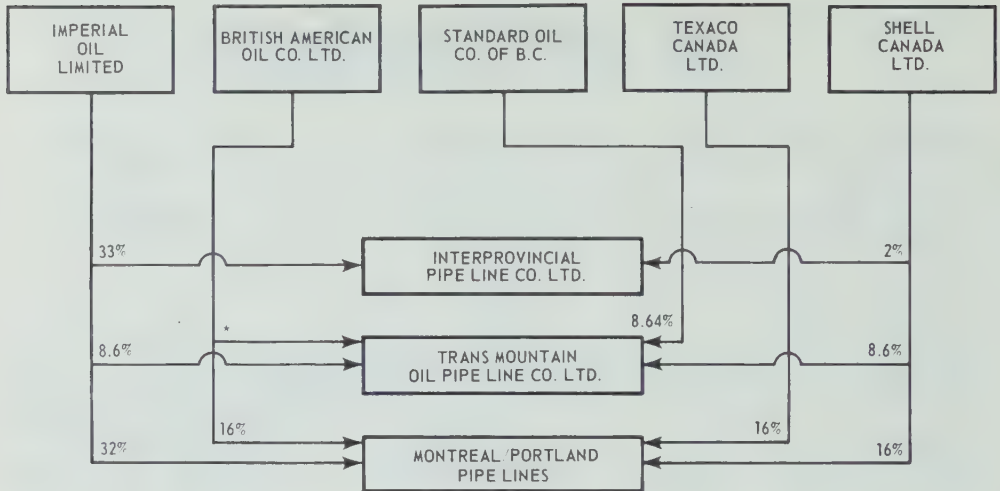
The problems associated with oil company practices in marketing of gasoline are common to all Provinces, but the benefits resulting from the vast expenditures of the oil companies on exploration and production primarily benefit Alberta.

# CHART 147 SOME INTERLOCKING DIRECTORS AND OFFICERS AMONG 'CARTEL' COMPANIES, PIPELINE COMPANIES SERVING CANADA, AND OTHER COMPANIES



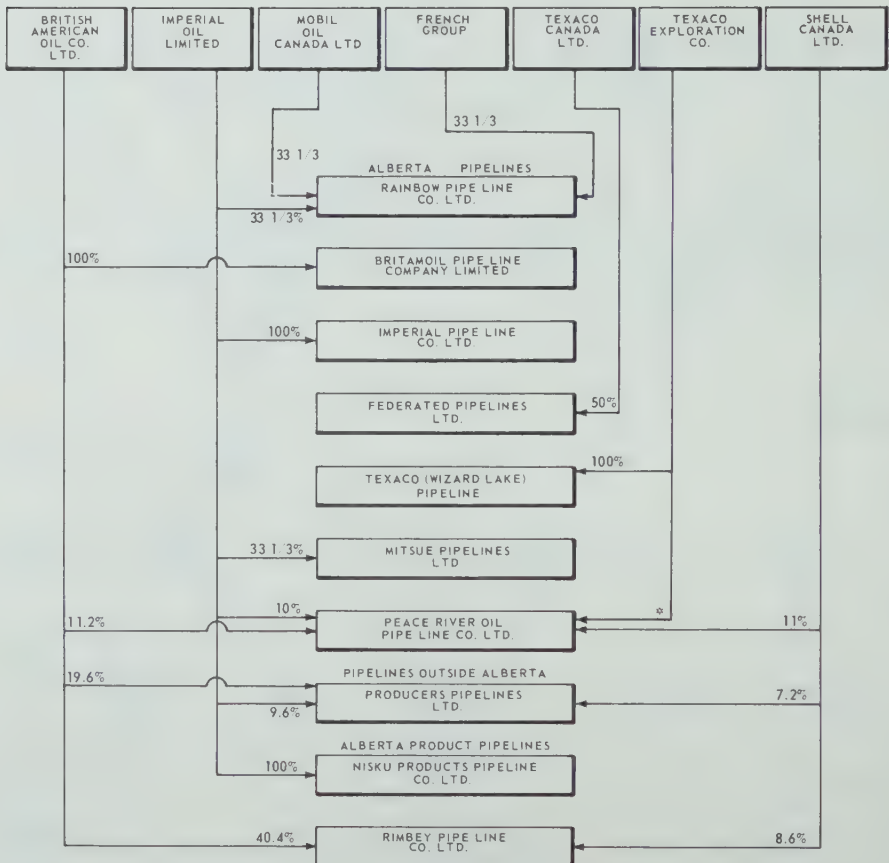
# CHART 148

OWNERSHIP INTERESTS IN MAJOR PIPELINES BY 'CARTEL' SUBSIDIARIES



# CHART 149

OWNERSHIP INTERESTS IN LOCAL PIPELINES HELD BY SUBSIDIARIES OF MAJOR INTERNATIONAL OIL COMPANIES



\* PERCENTAGE NOT KNOWN

## CHAPTER 47. INTEGRATED OIL COMPANIES

### (1) Trends Toward Integration

There is a definite trend in the oil industry toward vertical integration. The ultimate objective for most companies is to engage in all branches of the industry; exploration, production, transportation, refining, marketing, and retailing.

A company that starts out as a producing company tends to acquire a refinery to process its crude oil.

A company that starts out as a refining company tends to acquire oil production to insure its source of supply and tends to acquire marketing facilities to insure its market for refined products.

A company that starts retailing gasoline through service stations tends to go into wholesale distribution and then to acquire a refinery so that it can obtain refined products at prices similar to those paid by its competitors, and ultimately works into the business of exploring for and producing oil.

No matter what portion of the oil business a company enters, its growth tendency is toward becoming a "complete" oil company, namely: one that is fully integrated, covering all aspects of the business from exploration for crude to retailing at the pumps.

Of all the possible points of entry into the oil business, under normal circumstances, retailing through the service station should be the easiest and least expensive point of entry. To explore for and produce crude oil requires large quantities of highly speculative capital. To get into the refining business, for a company which has neither production nor marketing facilities, also involves large quantities of capital and a considerable amount of risk.

If the industry desired to limit competition and restrict the admission of new entrants, the discouragement of new entries into the marketing field would appear to be the most obvious point to concentrate its efforts.

The cumulative effect of the marketing policies of existing integrated oil companies is certainly to discourage new entries. These policies include:

- (a) overbuilding, which results in far more service stations than are needed, and a great many uneconomic service stations where operators work too long hours, receive very little pay, and there is an extremely high degree of turnover and business failures;
- (b) credit cards, provided by major integrated oil companies which can be used nationwide, make it difficult for a new entry into marketing to provide comparable facilities;
- (c) brand name advertising which can be done by major integrated oil companies on a nationwide basis at a relatively low cost per gallon makes it difficult for a new marketer to obtain public acceptance of his product, which forces the off-branding to compete in price, thereby reducing his margin of profit below that enjoyed by the existing integrated oil company.
- (d) The subsidization of lessees of brand name service stations by charging lower rentals than necessary to give an economic return on the investment in property, makes it extremely costly for the new entrants to provide comparable properties and facilities.

The new entrant has to lease his premises to operators at competitive rates to those charged by existing major integrated oil companies, because the new entrant, facing a harder job in marketing his product, cannot attract lessees if he charges a higher lease rental for comparable premises.

A new marketer, which in spite of all these handicaps, succeeds in establishing a fairly considerable volume of gasoline sales, is usually bought out by a larger integrated oil company. This may happen either before or after the new marketer expands into the refining branch of the oil industry.

This happens for a variety of reasons.

An integrated oil company with coverage in only one section of the country, when it desires to extend its marketing operations to a new area, usually finds it cheaper to take over some existing marketing organization than to establish a completely new one. Companies operating in different areas may honour each



others credit cards to make their credit cards more competitive. A marketing company that needs refined products may enter agreements with a refining company with excess capacity. One company needing money to expand its service station facilities may sell some of its shares to another oil company. Such cooperation between complementary operations may ultimately lead to integration or amalgamation which may have advantages for both.

Many people who establish independent marketing companies are former employees of marketing divisions of major integrated oil companies, and knowing the business, they see an opportunity to build up a sizeable sales volume with the ultimate intention of selling it out at a profit to a larger integrated oil company.

Ross H. Faulkner presented a paper entitled "Business Purposes Which Motivate Mergers and Sales in the Domestic Oil Industry" at the Institute on Economics of the Petroleum Industry, at Dallas, Texas, in March of 1965. It was published in a book entitled "Economics of The Petroleum Industry", volume 3, The Southwestern Legal Foundation. The author studied oil company mergers in the United States during the period from the end of World War II until 1964. He analyzed 738 significant oil company merger transactions to determine why some oil companies have been acquired and why other companies seek to acquire.

In his Table I he classified these 738 mergers into classifications such as acquisitions of production, acquisitions of refineries, etc. The largest number of mergers occurred in connection with acquisitions of production, accounting for 218 of the total. In this classification, the most important category was oil companies with refining operations purchasing additional reserves. The author concludes that these acquisitions appear to have been for the purpose of adding crude reserves to balance refining requirements. The author's second table, lists the names of the acquiring companies and the companies acquired in certain of these transactions.

The third table included in this paper was compiled by the producing staff of Standard Oil Co. (N.J.), showing individual transactions for properties from 1955 to 1963, with particulars as to the name of the seller, the name of the buyer, the financing method, the price paid, and the barrels of daily production.

Another class of acquisitions dealt with was the acquisition of servicing facilities, drilling equipment, pipeline gathering facilities, natural gasoline recovery plants, etc. He states that the actual number of transactions of this sort is greater than the relatively few mergers which obtain publicity.

Another classification dealt with was where oil companies acquired refining facilities. In one of the cases dealt with, a west coast integrated company acquired refining and marketing facilities which enabled it to expand its operation to the eastern United States. In another case, a successful exploration and producing company acquired refining and marketing facilities to become fully integrated.

Another class, was the acquisition by refiners of distribution facilities to increase their marketing outlets. One hundred and thirty-five merger transactions of this sort were included in this classification.

This process is going on constantly in Canada as well. It is tabulated in tables 110, 111, and 112. A few of the local cases are as follows:

- (a) Shell Oil acquired North Star, and Canadian Oil;
- (b) Husky acquired Excelsior Refineries Ltd., Stewart-Davis Petroleums Ltd., Wainwright Refineries Ltd., and the Wainoco Service Stations;
- (c) Royalite acquired Anglo-American, Purity 99, Great West Distributors, Alberta Hi-Way Refineries, Lion Oil Ltd.;
- (d) British American acquired Sanford Oils Ltd. and Royalite;
- (e) Gulf Oil acquired British American;
- (f) Standard of California acquired an interest in Irving Oils in the Maritime Provinces.

To summarize what appears to be happening, the major integrated oil companies make it extremely difficult for new entrants to enter the oil business at the retail and wholesale levels. Those that do enter at that level and obtain a measure of success are usually acquired by or integrated with a larger oil company at some stage. New entrants into the oil business at the production or refining levels are less common, due to the higher costs and risks, but if they succeed and prosper and grow, they, like new entrants at the marketing level, almost invariably are taken over, integrated or amalgamated with larger oil companies.

A handful of major integrated oil companies dominate the oil industry throughout the world. Very few new entrants have succeeded in staying in the business long enough to become an effective competitor on an international basis to earn a place among this select group.

## **(2) A Canadian Integrated Oil Company**

The chance of an independent Canadian oil company succeeding in becoming fully integrated and attaining large size is remote, having regard to the world wide dominance of the "Cartel" companies and their wealth. To maintain their dominant position, they force growing competitors out of business or buy them out.

Beyond doubt, Canada has the necessary skills; technical, technological, financial, and promotional, to establish and successfully operate such an oil company. Canadians have formed, owned and operated small producing companies, small refining companies, and small marketing companies. Canadians have successfully promoted and developed small integrated oil companies, which beyond question, had the ability to grow larger, such as—North Star Oil Limited, Canadian Oil Companies Limited, Anglo American Exploration Ltd., British American Oil Company, Irving Oils, etc.

Royalite is a good case history which is familiar to Albertans. Royalite was formed in 1921 as a producer. As it grew and prospered it became an integrated company. British American purchased majority holdings in 1962. Majority holdings in British American had been purchased by Gulf, a member of the "cartel". Late in 1968 Royalite, British American, and Shawinigan Chemicals Ltd. are in the process of amalgamation under the new name of Gulf Oil Canada Ltd.

If another independent succeeded in establishing fully integrated operations in Canada, the likelihood is that it, also, would be bought out by a "cartel" company as one of the cheaper modes of entry to this desirable market, as has already happened in the cases of such promising Canadian companies as those mentioned above. When a larger foreign integrated oil company or a member of the "cartel" decides to buy out such a company, the purchaser has such vast economic power and can make the offer so attractive that individual shareholders and investors find it virtually impossible to refuse the immediate personal profits they are offered.

In most countries, free enterprise national corporations have been unable to maintain their independence in the face of the competitive pressures of the "cartel", combined with the irresistible attractions of "cartel" purchase offers.

If Canada wants to have a fully integrated oil company not controlled from beyond its borders, that company needs some measure of government control, protection, or support, to prevent purchase by a "cartel" company.

In Britain, the British Government owns 51% of the stock of B.P. In France, the French Government owns 35% stock interest with 40% voting rights in C.F.P., and it owns 100% of Entreprise De Recherches Et D'Activites Petrolieres which through subsidiaries is actively engaged in the oil business. National oil companies have been created in forty or more nations. In Canada, in industries which, like oil, tend to be monopolistic, Crown Corporations have engaged in businesses such as Air Canada, the C.N.R., Eldorado Mining and Refining Ltd., Northern Transportation Co. Ltd., etc., to the advantage of the public. In Alberta, the Alberta Gas Trunk Line Company Act created a company by statute which operates successfully in one branch of the oil industry.



From its study of the oil industry, the Committee strongly believes it would be in the Canadian interest to have a large fully integrated oil company owned and controlled within Canada to actively participate in the Canadian oil industry.

Canada can never have a powerful national oil company unless there are restrictions which prevent its sale to foreign ownership.

Such government restrictions can take many forms and there are precedents which have been adopted in other countries or in other industries which clearly indicate ways in which it could be done:

- (a) in the case of British Petroleum, a member of the "cartel", the British government owns 51% of the shares of the company; (which searches for oil in Alberta under the name of Triad Oil, and operates service stations in Ontario under the name of B.P.)
- (b) in the case of the French Group, the French government owns varying share interests and voting privileges in the parent companies which through their subsidiaries (like Banff Oil in Alberta) carry on world wide integrated operations,
- (c) in Alberta Gas Trunk Line Company, the statute incorporating the company imposes restrictions on who may own voting shares, on the transfer of voting shares, and provides for the appointment of some directors by the government of Alberta;
- (d) by creation of a crown corporation to compete against privately owned giants in the same way as the Canadian National Railway competes with Canadian Pacific;
- (e) by creating a corporation such as Air Canada which competes in the air lines business with other governments and with private corporations both within and beyond the borders of Canada;
- (f) by statutory restrictions such as those contained in the Bank Act which prevent control of Canada's banking and financial institutions passing to foreign ownership.

The government of Alberta is already directly involved with the oil industry because approximately 50% of its revenue comes from this single source. We believe it is in the public interest of the citizens of Alberta and of Canada that their governments should have much more direct information about the oil industry than they presently appear to have.

The best possible way of developing factual information is, by direct participation in the industry and its decisions, and by competing actively with others in the business, as is done in the case of such corporations as Air Canada. Many other governments have seen fit to do so in the oil industry such as Britain and France who regard this activity as vital to their national interests.

Alberta and Canada, by virtue of the substantial production within their borders and by reason of Crown ownership of petroleum and natural gas rights, have an unequalled opportunity to encourage the creation of a national oil company which would be in the national interest and would help in the establishment of national policies without going to the extreme of outright nationalization of the entire industry as has been done in Mexico and many other countries.

The gigantic international oil companies which operate in Canada have immense economic power which has a major influence on our economy. They are among our more important corporate tax payers and are quite properly listened to by governments in policy matters relating to the oil industry. However, as the ultimate ownership and the ultimate power of decision on policy for these companies is foreign, whether American, British, or French, there is always a doubt as to whether what they are saying is motivated by Canada's interest, or by the corporation's international economic interest, or by interests influenced by its country of origin.

In an industry as complex as the international oil industry, it would be desirable if Canada had the knowledge and advice that could be gained from a company with Canadian ownership and no interests other than those of its shareholders, its own economic interest, and the national interest of Canada in the production and export of its oil.

## PART 12

### GASOLINE RETAILERS' ORGANIZATION

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## PART 12

### GASOLINE RETAILERS' ORGANIZATION

#### CHAPTER 48. PROBLEMS IN ORGANIZATION OF RETAIL GASOLINE DEALERS

##### (1) Membership Problems

There are several different classifications of retail gasoline outlets (Chart 13) and the operators of different classifications of outlets have different problems. There are over 3,100 outlets in the province, of which 1,700 are operated by owners and over 1,200 are operated by lessees. A considerable number of the owned outlets are classified as "other businesses with some gasoline sales" such as implement dealers, general merchants, etc. In such businesses the small volume of gasoline sales is only incidental to a larger primary business. The owner of such a business who has only a small revenue from gasoline sales is usually not much interested in membership in a gasoline retailer's organization.

People whose primary business is the sale of gasoline, and who operate the type of gasoline outlet you visualize when the term "service station" is used are mainly lessees, of whom there are 1,200 in the province.

If there is to be an organization of gasoline retailers, the most likely members are those whose full time primary business is the sale of gasoline, and these are mainly lessees.

The Committee asked 211 service station operators whether they belonged to the Automotive Retailers' Association in Alberta, and of these 37.5% stated they belonged to the association. A large number of service station operators stated to the interviewers that they did not belong to the A.R.A. because their oil company disapproved. Some of those who stated they did belong advised that they were reluctant to be active in the association because their oil company disapproved. This opinion that their oil company disapproves of membership in the A.R.A. appears to be quite widespread, and the possible consequences of oil company disapproval are illustrated by the case of Bernard Roux referred to in Chapter 20(5).

The rate of termination of lessees is 26% per year in stations selling less than 100,000 gallons and 22% per year in stations selling between 100,000 gallons and 200,000 gallons per year. (Table 61)

During the course of Committee interviews with service station operators, 37% of those interviewed had been in their station for two years or less, and out of 210 operators interviewed the mean of their experience or length of time as a lessee was 4.5 years. (Chart 52) Accordingly many people give up the service station business before they have been in it long enough to become interested in joining a gasoline retailer's association. Assuming they are recruited and do join they are only in the association for a year or two before they also would cease being service station operators. Consequently a gasoline retailer's organization would have to constantly recruit new members to maintain a membership.

Those operators who are active as members or directors of the A.R.A. appear to be from the relatively small percentage of people who have made a success of the business and managed to survive in it for a number of years. They are the operators who are most familiar with the problems of the business, and who have the most experience with the pressures that oil companies can exert under their numerous contracts.

The A.R.A. accordingly appears to have two very serious handicaps in attempting to increase or strengthen its organization

- (a) the widespread feeling that oil companies disapprove of membership in the organization; and
- (b) the extremely high turnover rate of lessees which means that a steady recruiting program is necessary to maintain a constant membership.

Under the circumstances we think the remarkable thing is not how few members the organization has but rather how many members the organization has.

## (2) Limitations on the Powers of the Organization

The combined effect of the oil company owning a service station, the oil company being the exclusive supplier of products to a service station, and the oil company having the operator tightly bound by numerous contracts, is that the lessee or commission agent operating a service station is subject to as much direction and control by the oil company as would be the case if he were an employee.

If he were an employee he would be protected by legislation prescribing hours of work, a minimum wage, and the right to bargain collectively through a union. However, as a lessee or as a retail commission agent, even though he is subject to direction and control he is not an employee so he is not protected on either hours or wages.

The Labor Act authorizes employees to bargain collectively and to be represented by a union as a bargaining agent. However, the service station operators are not employees, there is no legislation authorizing them to bargain collectively or to be represented by a bargaining agent, so their organization has no official status to deal with the oil companies on their behalf.

The A.R.A. is accordingly a purely voluntary organization which no oil company has to recognize.

In such circumstances there are hazards in organizing to improve their conditions.

The February 1968 issue of National Petroleum News tells about service station dealers who were indicted in 1967 for alleged anti-trust violations, principally price-fixing. The following are quotations from this article—

"They were members of six dealer associations indicted by grand juries in San Francisco, Los Angeles, and Fresno at the instigation of the U.S. Justice Dept.'s anti-trust division."

"The western dealer industry is smarting from what many consider the greatest pressure the U.S. Justice Dept. has ever brought to bear on service-station dealers. Six associations so far, with all their members as co-conspirators, have been indicted for alleged anti-trust violations."

For more than a year, grand juries have called hundreds of western dealers to testify, and the effect has been to shake them up pretty thoroughly.

These intensive investigations came after a period of widespread but mainly local activities aimed at doing something about what dealers considered their economic problems (National Petroleum News — August 1967, p 34)."

In Canada The Combines Act could similarly be used against dealers or dealers' organizations to prevent them from taking certain types of collective action to help themselves. The reaction of service station dealers in California to the anti-trust investigations directed against the dealers and their organizations was to give consideration to joining The Teamsters Union.

In Alberta a service station operator would not be eligible to join a union because under the provisions of The Alberta Labor Act a service station operator would be an employer and would not fall within the definition of "an employee" who is authorized by the Act to bargain collectively.

In an article in the February 1968 issue of "National Petroleum News" entitled "That Dealer Union: Who? . . . Why? . . . When?" . . . the proposed union organization of service station dealers by The Teamsters Union was discussed.

The following quotations were taken from this article—

"On the rebound, indicted dealers in the San Francisco area asked for unionization as the only other course they saw open to them. This was reported by the union's president, Carl Helm, at an open organizational meeting in Los Angeles. Certain groups reportedly joined the union en masse."

"The Teamster official acknowledged it's uncommon to unionize employers, but he added that's no reason Teamsters wouldn't do so. 'Service-station operators obviously need help,' Sheridan said."

"Practically all of the 31 dealers attending the first of two Los Angeles meetings were officers and directors of this indicted group, United Oil Dealer Assns."



The proposed union expressed the ambition of growing nationwide. It states that it will start with California locals, where it has a potential of 80,000 members. Among its objectives are—

- (a) liveable margins,
- (b) no rent for service stations,
- (c) no charge or rent for service station identification signs,
- (d) ten year leases,
- (e) mass buying of T.B.A.

If it was regarded as desirable to enable service station operators to be represented by a union so that they could bargain collectively, legislation could be enacted providing that they should be deemed to be employees within the meaning of The Alberta Labor Act for purposes of collective bargaining.

### **(3) Effectiveness of Retailers' Organizations**

Notwithstanding the problems of organizing gasoline dealers, and notwithstanding the serious limitations on the powers of such organizations, they have succeeded in performing useful functions in spite of their handicaps.

Among the things they can do is make representations to civic, provincial, and federal governments to provide information and publicity about the shocking conditions under which dealers operate.

In Great Britain, in a Bulletin published by the Motor Accessories Manufacturer's Association Ltd. the following appeared:

"The successful outcome to The Monopolies Commission Enquiry is due in no little part to the Retail Trade Associations of the United Kingdom. Praise must be given to the permanent officials of the Trade Associations and to those who give up so much of their spare time to serve on the committees, both national and local, in the interests of the retail trade."

In the United States when the state of Maryland enacted a law in 1968 prohibiting gas station promotional games, newspaper articles in the Washington Post and The Calgary Herald described how for two legislative sessions Maryland gasoline retailers lobbied and picketed the General Assembly to convince it "that the take-a-card games are costly, inconvenient and sometimes fraudulent". The service station operators who supported the bill contended that the games cut into their profits to the extent of at least 1c per gallon. The efforts of the operators were organized by their organization the "National Congress of Petroleum Retailers".

In British Columbia the Automotive Retailers' Association contributed to the formulation of public opinion which resulted in the "Royal Commission on Gasoline Price Structure" appointed in 1963 which reported in 1966. Mr. Kinneard, Secretary for the Automotive Retailers' Association of B.C. was given the privilege of cross-examining witnesses at the public hearings of this Royal Commission.

In Nova Scotia the mark-up of service station retailers, and the hours that stations must remain open or closed, are regulated by the Public Utilities Board of that province. The Nova Scotia Retail Gasoline Dealers' Association in 1966 applied to the Public Utilities Board to have their margins increased from 7c per gallon to 8½¢ per gallon of gasoline effective the 2nd of January 1967. The Public Utilities Board advised the government of Nova Scotia of this request and Nova Scotia appointed a Royal Commission on the Price Structure of Gasoline and Diesel Oil which is giving study to the problems.

In Alberta The Automotive Retailers' Association of Alberta made a submission to the Executive Council of the Government of Alberta on January 20, 1964. This submission dealt with such subjects as the alarming rate of turnover in service stations, the "commission consignment" system, discriminatory pricing, and the need for a Royal Commission. This and other similar submissions led to the appointment about a year later by the Government of Alberta of this Gasoline Marketing Enquiry Committee.



## CHAPTER 49. THE AUTOMOTIVE RETAILERS' ASSOCIATION IN ALBERTA

When the Committee was commencing its inquiries several representatives of oil companies, and other persons suggested that the A.R.A. was not representative of the thinking of service station operators and that many operators did not belong to the association and did not agree with the position of the association.

In Alberta prior to 1956 a loose-knit association of garage and service station operators existed known as the Automotive Trades Association. It was a provincial federation of local associations, the principal branches being in Edmonton and Calgary. Although it existed for a number of years it never appeared to have had any permanent full time staff.

Members of the A.T.A. believed that a stronger and more effective association was needed. With the help of the Automotive Retailers' Association of British Columbia, the Automotive Retailers' Association of Alberta was formed in 1956. In 1957 Mr. Earl Currie was appointed as the first full-time Secretary-Manager of the association.

In the years from 1957 to 1960 the association built up rapidly in numerical strength, reaching a membership in excess of 1,000 firms by 1960. The association decided to go into the business of owning and operating a general insurance agency and a trade magazine and both of these ventures operated at a considerable loss. This was reflected by a decline in membership in 1961 and the resignation of the first Secretary-Manager.

A new Secretary-Manager Mr. Desmond Achilles was appointed, the magazine was discontinued, the general insurance business was sold, the field staff was reduced, and steps were taken to economize, consolidate, and restore confidence. The membership has gradually been built up, concentrating in Edmonton, Calgary and the other cities where it has been more economical to canvass for membership. Due to the high rate of turnover of lessees recruiting has to take place at a greater rate than the turnover in order to obtain net increases in membership. Membership dues in Edmonton and Calgary were \$72.00 per year and \$60.00 per year in other areas, and gasoline retailers classified as "other businesses with some gasoline sales", who sell relatively small volumes of gasoline are frequently not good prospects for membership.

As of June 15, 1966 the Automotive Retailers' Association had 677 members regionally distributed as follows:

### Regional Distribution of Membership

Cities		No. of Member firms	Towns and Villages		No. of Member firms
Edmonton .....		218	Ponoka .....		3
Calgary .....		204	Valleyview .....		3
			Vermilion .....		3
Sub total Edmonton and Calgary	422		Willington .....		3
Lethbridge .....		26	Barrhead .....		2
Red Deer .....		23	Claresholm .....		2
Medicine Hat .....		21	Fairview .....		2
Camrose .....		17	Grimshaw .....		2
Lloydminster .....		12	High Prairie .....		2
Grande Prairie .....		11	Hinton .....		2
Sub total other cities		110	Hythe .....		2
Total membership, Alberta cities		532	Jasper .....		2
			LaGlance .....		2
Towns and Villages			Nanton .....		2
Stettler .....		8	Rycroft .....		2
Wetaskiwin .....		8	St. Albert .....		2
Peace River .....		6	Standard .....		2
Taber .....		5	Sylvan Lake .....		2
Vegreville .....		5	Viking .....		2
Fort Macleod .....		4	Whitecourt .....		2
Athabasca .....		3			92
Banff .....		3	Other areas .....		53
Bonnyville .....		3	Total membership, other areas		145
Brooks .....		3	GRAND TOTAL MEMBERSHIP		677

The geographical spread of the membership covers most of the province from Banff and Jasper in the West to Lloydminster in the East and from communities in the extreme south to Manning which is in the far north of the Peace River country.

Over 70 members of the association which is more than 10% of its total membership have been members continuously for the ten year period since its formation. Some members who dropped out during the period of financial difficulty in 1961 have since rejoined.

We inquired whether service station operators who sold the brands of each of the major companies were represented in the A.R.A. membership.

In Calgary, in the case of Imperial Oil, B.A., Shell, and Pacific more than 50% of the operators of each company belong to the A.R.A., but in the case of Royalite, Texaco and Husky somewhat less than 50% of their operators belong.

In Edmonton in the case of Imperial, B.A., Texaco and Pacific more than 50% of the operators of each company belong the A.R.A., but in the case of Royalite, Shell and Husky somewhat less than 50% of the operators belong.

For the two cities combined in the case of Imperial, B.A., Shell, Texaco and Pacific more than 50% of the operators belong to the A.R.A., but in the case of Royalite and Husky something less than 50% of the operators belonged.

The government of the association appears to be representative and democratic. It has an eleven member Board of Directors elected annually. In 1966 the Executive Council directors consisted of four from Edmonton, four from Calgary and one each from Lethbridge, Medicine Hat and Red Deer.

Wherever practicable local zones or branches of the association are formed throughout the province and members of these zones elect their own officers. The zones call regular monthly meetings which are open to all service station operators whether or not they are members of the association. There is a Central Council consisting of delegates from all zones, plus the Board of Directors and it meets three times a year. The Board of Directors or Executive Council meets monthly with the occasional exceptions. The association holds an annual meeting in September to which all members are invited. Usually 60 or 70 service station operators attend the annual meetings which is about 10% of the association membership.

This Committee and its staff interviewed several hundred service station operators throughout the province during the course of completing its service station questionnaires. The Committee met on several occasions with the Board of Directors of the Automotive Retailers' Association. In the opinion of the Committee the Automotive Retailers' Association is representative generally of the views of a majority of service station operators in the province of Alberta.

## **CHAPTER 50. DIVORCEMENT OF RETAILING**

### **(1) A.R.A. Divorcement Resolution and Brief**

At the tenth annual convention of the Automotive Retailers' Association of Alberta held in Banff during September of 1966 a "Divorcement Resolution" was debated and passed. This resolution read as follows:

Whereas the Government of Alberta has established a Gasoline Marketing Enquiry to enquire into the marketing of gasoline and petroleum products in Alberta and to consider the relationships between oil companies and service station operators and to report to the Government its findings and recommendations;

Whereas this Enquiry was established following requests by the Automotive Retailers' Association that such an investigation be set up;

Whereas the Automotive Retailers' Association considers that it has a responsibility to submit to the Gasoline Marketing Enquiry Committee constructive suggestions for the solutions of the problems under investigation;

Whereas the Automotive Retailers' Association has given long and careful study to the problems involved, and thorough consideration to the findings and recommendations of similar investigations in the United Kingdom and in British Columbia and to the clear indications emerging from these investigations that present oil company policies lead not only to discriminatory pricing practices but also to a wasteful overinvestment in and overbuilding of service stations and to undesirable restraints on free enterprise;

And whereas the A.R.A. feels that the problems of the retailing of gasoline and petroleum products will be alleviated only when free enterprise and competition returns to the gasoline retail business in Alberta;

NOW THEREFORE BE IT RESOLVED THAT:

1. THE AUTOMOTIVE RETAILERS' ASSOCIATION SHALL RECOMMEND TO THE GASOLINE MARKETING ENQUIRY COMMITTEE THAT THE OIL REFINING AND MARKETING COMPANIES OPERATING IN THE PROVINCE OF ALBERTA BE DIVORCED BY PROVINCIAL LAW FROM THE RETAILING OF PETROLEUM AND OTHER PRODUCTS AND FROM INVESTMENT IN AND FINANCING OF SERVICE STATION OPERATIONS, BUILDING AND REAL ESTATE;

2. THAT THE ARA SHALL FURTHER RECOMMEND THAT SUCH DIVORCEMENT BE EFFECTED IN LOGICAL STAGES TO BE COMPLETED WITHIN A TERM OF TEN YEARS FROM THE DATE OF ENACTMENT OF DIVORCEMENT LEGISLATION.

The divorcement of oil companies from retailing and the compulsory divestiture of service stations from oil companies appeared to the Committee to be an extreme measure which should be considered only if no other practical solution was possible.

The Committee wished to be satisfied that the A.R.A. had given this resolution and its implications very detailed consideration. The Committee wished to be informed of the specific problems and particulars of the reasoning of the A.R.A. which led to the submission of such a drastic solution.

The Committee accordingly requested the A.R.A. to prepare a submission in writing dealing fully with its position on the subject of "Divorcement".

The A.R.A. took several months in the preparation of its brief which it submitted to the Committee at a day long meeting at which its Secretary-Manager, its solicitor and practically all of its Directors were present.

The A.R.A. brief was 75 pages in length, divided into three main parts. The first part dealt with a general review of industry problems and objectives of retailers. The second part concentrated on separate problem areas and possible specific solutions to individual problems. The third part defined what the association meant by its use of the term "divorcement" and outlined the thinking which led to the divorcement resolution. It then dealt in some detail with the problems of accomplishing divorcement and the steps it considered should be taken.

The Committee was impressed with the brief and with the serious approach and thoughtful consideration that the association and its executive had given to the solution they proposed.

The Committee considered that the problems of service station operators and the possible solutions would be more clearly defined if the oil companies were given the opportunity of studying the A.R.A. brief and submitting their own briefs in reply. The A.R.A. brief was accordingly sent to the oil companies and their submissions were invited on the issues raised.

## **(2) Oil Company Submissions re Divorcement**

British American, Imperial, Shell, and Texaco each made written submissions to the Committee after considering the A.R.A. brief on Divorcement. The replies ranged from one-third to one-half of the length of the A.R.A. submission, omitting reference to some issues and not dealing with others in much detail.



The Committee was frankly disappointed in the quality of the oil company briefs submitted in reply to the A.R.A. brief on Divorcement. We had the impression that the oil companies replied, more because they thought they were expected to do so, than because they regarded the problems as serious or the solution of divorcement as a conceivable possibility. Their attitude seemed to be that anything created by man will have some imperfections, but the existing system of marketing gasoline is as close to perfection as the mind of man can devise.

The A.R.A. brief dealt in a serious way with a number of serious problems and reached the conclusion that these problems in the aggregate were of such magnitude that a solution as drastic as divorcement was necessary and should be recommended by this Committee to the government.

The oil companies appeared to take the attitude that neither the problems nor the suggested solution were deserving of serious consideration. Their briefs did not deal in detail with the specific problems, they did not recommend alternative solutions to these problems, and some of them did not even agree that there were such problems as too many service stations or a lessee turnover problem. They tended to generalize about the free enterprise system, about competition in the market place, and about how undesirable and incompatible government regulation would be with the business philosophy and climate prevalent in the province. One company expressed the general view that the trend to a greater degree of oil company ownership of retail outlets was not detrimental to dealers and was well justified by the nature of the business. Dismissing lessee turnover and financial problems of operators, with a generalization, by stating they arise from the working of economic forces which are the basis of the free enterprise system, was not very helpful.

The A.R.A. brief advocated divorcement because dealers are tied and regimented by the oil companies in various ways. One oil company submission stated the recommendations of the A.R.A. were in conflict with the White Paper on Human Resources Development, issued by the government of Alberta in March 1967 which it quoted as follows:

"A free enterprise economy in which all individuals have maximum opportunity to participate, will be regarded as more desirable than a state regimented economy".

It seemed to us that the quotation means free individual opportunity is preferable to regimentation, and the A.R.A.'s request for freedom of the individual from regimentation by removal of company imposed ties was consistent with this concept, rather than in conflict with it. The A.R.A.'s complaint is that the individual operator does not have freedom and cannot get freedom under the present system of tied marketing. This problem is not solved by saying that in a free enterprise system, government should not intervene to protect its citizens who, in the opinion of the Committee, do not enjoy freedom of enterprise, and are being exploited.

### **(3) Committee Views on Divorcement**

The Committee in general favors freedom of enterprise and is opposed to government intervention or regulation.

However, in the opinion of the Committee the oil industry tends to be monopolistic. There is no evidence of price competition between the closely interwoven companies which control the oil industry throughout the world, and service station operators do not enjoy any appreciable degree of freedom of enterprise. They are rigidly controlled in every aspect of their business by oppressive contracts which are harshly enforced, and are far worse from the point of view of the operator than any degree of government regulation.

In these circumstances a free enterprise government in a free enterprise society could quite properly consider the solution of divorcement as a method of restoring free enterprise to thousands of its citizens who have been deprived of it.

The United States is regarded as one of the outstanding examples of a free enterprise society. The government of the United States not only gave serious consideration to divorcement of oil companies from retailing but actively advocated that divorcement and divestiture be granted as one of the principal remedies it sought in "the West Coast Oil Case". (Chapter 51[3]) The United States negotiated for nine years before it abandoned its prayer for divorcement and settled the case for other remedies which did not go quite so far as divestiture of real property.



The A.R.A. in requesting divorcement recognizes the oil company contract ties as the cause of many problems of service station operators. The operator is most aware of the ties which affect the real estate in which he conducts his business such as the lease ties and the mortgage ties. The lease which can be terminated in thirty days is an ever present sword hanging over his head. If he differs with the oil company on any subject whatsoever relating to any aspect of his business, he feels insecure because he is exposing himself to the threat of lease termination.

Accordingly the operators and the A.R.A. are inclined to identify contract ties with oil company ownership of real estate. The solution they proposed for their problems was "divorcement" which involves depriving the oil companies of all interests in service station real estate, and the acquisition of such real estate by the operators.

The A.R.A. suggests as a precedent, the action of the Alberta Government in requiring breweries to divest themselves of their interests in hotels. However there are many considerations affecting the public interest in the liquor business which are not applicable to the sale of gasoline.

Much of the A.R.A.'s brief on "Divorcement" was directed to methods for solving the problems of acquisition of real estate from the oil companies and its transfer to the operators. These are serious problems on which the entire proposal could founder, and these problems might be used as a red herring to detract attention from the real problems of service station operators which should be solved.

The degree of opposition that a serious proposal for divorcement can meet was demonstrated in "The West Coast Oil Case" referred to in Chapter 51, entitled "Government Intervention in the Oil Industry". This was a civil action in California in which the United States of America was Plaintiff and several oil companies including Shell, Texaco and Standard of California were defendants. One of the remedies sought by the government of the United States was a prohibition against the oil companies engaging in retail selling of gasoline. The action commenced in May 1950 and did not conclude until June of 1959.

At a pretrial hearing in 1957 the Court asked if the parties had discussed the possibility of settlement. The Court was advised that there had been such discussions but they had been abandoned because of the impossibility of reaching any agreement on the issue of divorcement of the oil companies from retail selling. Several further meetings were held to consider settlement and subsequently the Court was informed that these discussions had again broken down because the oil companies rejected the government's continuing demand that each oil company be prohibited from engaging in the business of selling petroleum products at retail either by its own employees or by agents, consignees or managers. The government's desire to obtain "divestiture" and "divorcement" and the resistance of the oil companies to this suggestion was the principal reason that this action dragged on for nine years before judgment.

Even if divorcement were implemented many contractual ties between oil companies and their operators could remain, and more could be devised that were not contingent upon or related to the ownership of real estate.

In Great Britain the Monopolies Commission apparently concluded that contractual ties used by the oil companies were not in the public interest. The Monopolies Commission accordingly made recommendations reducing the length of ties or weakening ties, without going as far as divestiture of property or complete divorcement of retailing.

In the view of the Committee the real problem of the operators is the contractual ties, and not the ownership of real estate.

The Committee considers that a better solution would be to sever the contractual ties without creating the problems of depriving the oil companies of their real estate and compelling vesting of such real estate in the operators.

## PART 13

### MISCELLANEOUS

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## PART 13

### MISCELLANEOUS

#### CHAPTER 51. GOVERNMENT INTERVENTION IN THE OIL INDUSTRY

##### (1) Government Enquiries

The action of the government of Alberta in instituting this enquiry is not an isolated one.

There have been numerous enquiries into the conduct of the oil industry by many governments of many nations. In almost every case, these enquiries have disclosed monopolistic practices, practices in restraint of trade, or other oppressive or restrictive practices not regarded by the enquiry as being in the public interest.

Most of such enquiries have resulted in recommendations for some degree of intervention by government to prevent these gigantic oil companies from following practices which apparently are in their self-interest but were not regarded as being in the public interest.

The objectionable practices found in one country or jurisdiction are frequently the same as the objectionable practices found in other countries or jurisdictions.

The major oil companies are vast and wield great influence in many countries.

In many cases, the recommendations of enquiries into the industry have not been implemented and in other cases the recommendations implemented have not been effective to prevent or control the practices complained about. The oil industry is extremely complex and if one method of obtaining a desired result is prohibited, there frequently appear to be other methods which are not prohibited and prove to be equally effective.

The following is by no means a complete list but it refers to some of the more recent enquiries which have been concerned with problems relevant to those being considered by this Committee, namely—

The Royal Commission on Gasoline Price Structure was appointed by the government of British Columbia in 1963. This Commission deliberated for three years and reported in 1966.

The Restrictive Trade Practices Commission of the Department of Justice in Ottawa published a Report On an Enquiry into the Distribution and Sale of Automotive Oils, Greases, Anti-freeze, Additives, Tires, Batteries, Accessories and Related Products arising out of an enquiry under Section 42 of The Combines Investigation Act. This enquiry was begun in 1953 and carried on over a number of years. The report published in 1962 exceeded 500 pages in length.

In Great Britain, in 1965, The Monopolies Commission presented to Parliament its report prepared pursuant to the Monopolies and Restrictive Practices (Enquiry and Control) Act 1948 entitled "Petrol — A Report On The Supply of Petrol to Retailers in the United Kingdom". The President of The Board of Trade in February 1966 announced to Parliament his broad acceptance of the recommendations in the report of The Monopolies Commission. The recommendations of The Monopolies Commission were subsequently implemented by "Voluntary Undertakings" on the part of suppliers of petrol and lubricants which gave petrol retailers new freedoms from ties to which they had previously been subject, and conferred rights on oil company tenants which they previously did not have.

In "The West Coast Oil Case" the United States of America commenced a civil action in a California court against a number of large oil companies alleging combination and conspiracy to monopolize and to restrain trade. Proceedings commenced in May 1950 and a final judgment (by consent) was not entered until June of 1959. This judgment prohibited the oil companies from following a number of practices which they had previously followed and gave service station operators certain rights which they previously had not enjoyed, and the judgment continues in effect for the fifteen year period from 1960 to 1975.



In the United States, after a four year study a Report to The Federal Trade Commission by its staff on the International Petroleum Cartel was prepared. This report was submitted to the sub-committee on monopoly of the select Committee on small business of the United States Senate in August of 1952. This report is 378 pages in length and deals with many of the restrictive trade practices of the major international oil companies.

In March of 1966, in the United States, the staff of the Federal Trade Commission submitted a more limited report entitled "Economic Report on the Manufacture and Distribution of Automotive Tires" which dealt among other things with sale of tires through service stations of oil companies.

The government of the Province of New Brunswick established a "Gasoline Study Committee" in the fall of 1963 which gave a seven page report in February of 1964.

The Royal Commission on the Price Structure of Gasoline and Diesel Oil was appointed by the government of Nova Scotia in 1967, and it reported in October of 1968.

Thirty years ago, in 1938, the government of Alberta appointed a Royal Commission under the Public Enquiries Act to enquire into matters connected with petroleum and petroleum products which after a two year study produced a 271 page report. Due to changing conditions this report is no longer relevant, but it is significant that there appears to be enough public concern to cause recurring pressure on government to investigate the same industry.

The President of Imperial Oil Limited, Mr. W. O. Twaits was the guest speaker at the Annual Dinner of the Canadian Petroleum Association in Calgary in 1967. "The Producing News" a paper published for employees of the producing department of Imperial Oil Limited reported his address. Mr. Twaits commented upon the reports of three government enquiries which dealt with aspects of the oil industry, namely—the Morrow Report in British Columbia, relating to price, the Friesen Commission in Saskatchewan, and the Carter Commission report submitted to the Federal Government.

Mr. Twaits stated—"In the final analysis, the B.C. price enquiry was due to the failure of the industry to explain its practices at the retail level, and lack of common viewpoint between supplier and dealer".

In the opinion of the Committee, the Alberta Gasoline Marketing Enquiry was equally due to the failure of the industry to explain its practices at the retail level, and lack of common viewpoint between supplier and dealer.

Mr. Twaits in referring to the Saskatchewan Commission was quoted "Just because we in the oil business have evolved certain practices over a long period doesn't make them comprehensible or justifiable to the laymen. Consequently, we should be prepared to explain them, and to accept justifiable criticism."

The laymen in this Committee have listened to oil company explanations of certain of their marketing practices which have helped to make them comprehensible. However we still consider many of them to be unfair and unjust. Because we are critical we considered the information which influenced our views should be reported in detail, so the reader may have the opportunity to judge whether our criticism is justified.

An industry whose practices have resulted in so many government enquiries, and whose practices have been found objectionable in various jurisdictions and which continues to follow these practices which provoked such enquiries, must assume some of the responsibility for government intervention which has occurred in many countries, intended to relieve against these practices to which the industry clings.

## **(2) British Intervention — The Monopolies Commission**

In Great Britain The Monopolies Commission was instructed to study the supply of petrol to retailers. The study was commenced in 1960 and The Monopolies Commission reported to the House of Commons in 1965.

The following is a summary of its principal recommendations:

428. We recommend:

- (1) that the term of any solus agreement for petrol should not, except as provided under (2) or (8) below, exceed five years, though it may provide for continuation thereafter on an annual basis if neither party wishes to terminate it;
- (2) that when a petrol supplier makes a loan to a retailer for a period exceeding five years any solus tie between that supplier and that retailer may be expressed to extend to but not beyond the latest date for repayment of the loan (which should be for a definite period and not one contingent upon the purchase of a specified gallonage), but the loan agreement should provide that the retailer may at his option repay in full at any time after five years from the date of the loan and on such repayment the exclusive tie shall terminate;
- (3) that agreements concerned with the hire purchase or loan of petrol equipment which contain provisions restricting the retailer's use of that equipment should provide that the property in the equipment should pass unrestricted to the retailer at any time on payment of the balance of the hire purchase price or the appropriate proportion of the price of the equipment on loan; and that no such agreement should be expressed to restrict the use of any equipment other than that which is being sold or loaned under that agreement;
- (4) that while petrol suppliers may obtain undertakings from their solus petrol retailers that the latter will stock and sell their brands of lubricants, neither the solus petrol agreements nor any other agreements between petrol companies, or any other suppliers of lubricants, and petrol retailers should commit the retailer to purchase or sell specified quantities of the supplier's lubricants or to take the supplier's lubricants for the whole or any specified proportion of his total requirements, or to limit in any way the purchase, sale, stocking, use, display or advertising of other brands of lubricants; that no lubricant supplier should offer rebates or similar allowances upon conditions involving any such restrictions; and that the recommendations in this sub-paragraph should also apply to kerosene and anti-freeze preparations when these are marketed through petrol stations;
- (5) that no petrol supplier should accept any commission or other benefit in respect of any sales or purchases of tyres, batteries, accessories or other goods not being petroleum products by its solus retailers, or should make any agreement with such retailers under which the latter would undertake any restrictive obligation in relation to the purchase, sale, stocking, display or advertising of such goods; and any existing agreements or arrangements of petrol suppliers with manufacturers or distributors of such products as aforesaid to be paid such commissions or afforded such benefits should be declared void and of no effect;
- (6) that where a petrol supplier makes a loan to a retailer to cover the purchase or construction or substantial development of his station, the loan agreement may provide that the supplier shall have the option to purchase the premises if the retailer wishes to dispose of them while any part of the loan is outstanding but otherwise no agreement between a petrol supplier and his solus retailer should give the supplier any such option;
- (7) that no petrol supplier (or group of suppliers) whose deliveries of petrol in any year to company-owned stations (being stations in which the supplier has a freehold or leasehold interest, either directly or indirectly) exceed 15 per cent of his total deliveries to petrol stations in that year should build or acquire any further stations or acquire any such interest in any further stations while such excess continues, provided that this prohibition should not apply in any year in which the total deliveries by the supplier or group to petrol stations are less than 10 million gallons;
- (8) that petrol suppliers should not let or license their petrol stations for periods of less than three years, save that (i) the agreement may contain a provision that, if the station should fail to reach within a specified time and to maintain a specified minimum gallonage, the agreement may be terminated by either party, and (ii) the suppliers should have the right to offer a new tenant an initial agreement for a trial period of one year.

429. At present there exists some thousands of agreements between retailers and suppliers of petrol or lubricants. We do not think that the public interest would be sufficiently safeguarded by providing that no new agreements should be made which would conflict in any way with our recommendations while permitting existing agreements which so conflict to continue in force until the contractual dates of expiry. We therefore recommend that, as from the date when effect is given to the foregoing recommendations, all then existing agreements should be read and construed as though the recommendations appropriate to such agreements were embodied in them, and that as from that date all then existing agreements of a kind prohibited by the recommendations should become null and void, except that any existing agreement which conflicts with the recommendations solely because the contractual term is more than five years may be allowed to continue in force during the remainder of the term or for five years, whichever is the shorter.

The government of Great Britain broadly accepted the recommendations made by The Monopolies Commission. Government officials discussed the recommendations with the oil companies. At the request of the government, the oil companies undertook in writing to observe a series of "Undertakings" which varied only slightly from The Monopolies Commission recommendations.

The Undertakings went into effect on the 6th of August 1966, and if a supplying oil company terminates its Undertakings, then that company will be immediately bound by a statutory order carrying penalties as defined in the enabling act of Parliament.

The Undertakings gave freedom to the petrol retailer

- (a) to terminate his existing long term solus petrol agreement and/or loan or mortgage in five years time by giving notice four years from the date of the Undertakings;
- (b) to terminate any existing long term hire-purchase or loan agreement on petrol equipment five years from the date of the Undertakings;
- (c) to stock, sell, display and advertise any lubricating oil the dealer chooses;
- (d) to terminate any hire-purchase agreement on lubricating oil equipment at any time, and any loan agreement on such equipment by giving three month's notice of termination.

The Undertakings entitled a tenant of an oil company

- (a) to a three year tenancy agreement;
- (b) to stock, sell, display and advertise whatever lubricating oils the tenant decides upon;
- (c) to use in the lubricating bay any lubricating oils the tenant decides upon or the motorist requests;
- (d) to stock, sell and advertise any T.B.A. the tenant selects.

Five years is the maximum term fixed for any petrol "tie".

Arrangements for the supply of "tied equipment" must be terminable after an initial period of five years. In the case of hire-purchase and credit sale agreements, the retailer can terminate the "tie" by completing payments and giving twelve months' notice. In the case of hire or free-on-loan agreements, the petrol companies were required to give the retailer an option to purchase the equipment at a reasonable price or to return it to the oil company.

Loans and mortgages were required to provide for a definite date for repayment.

Where the oil company had the option to buy a service station or a right of first refusal on the purchase of the service station, such rights were limited to the period for which the loan was outstanding.

The Undertakings regulate the further acquisition of service stations by petrol companies which have annual retail sales in excess of fifty million gallons and who sell 15% or more of their volume through company owned stations. The restrictions do not apply to companies with smaller annual retail sales or with a smaller percentage of sales through company stations.

It is too early to know how the Undertakings are working. The government indicated it would keep a watching brief on the working of the Undertakings and they were to be reviewed 18 months after they came into effect, which would be early in 1969. The government indicated it would examine any evidence that the Undertakings have been operated in such a way as to nullify or distort their intended effects.

The full text of the Undertakings which are now applicable in the United Kingdom is as follows:—



## PART I (Solus petrol ties)

### Undertaking as to future solus petrol ties (other than ties on equipment)

(1) The Company will not enter into any agreement with a petrol retailer which includes a solus tie which will or may affect any petrol filling station for more than five years unless the agreement in question permits the retailer, by giving such notice (not exceeding 12 months) as may be required by the agreement to determine the operation of the tie without any penalty whatsoever at any time more than five years after the first day following the making of the agreement on which petrol was supplied by the Company or an associated company for retail sale at the relevant petrol filling station:

Provided that nothing in this paragraph—

- (i) shall apply
  - (a) to any agreement in so far as it relates to a filling station situated on company premises or in a motorway service area;
  - (b) to any credit sale, hire purchase or hiring agreement relating to petrol equipment, that is to say, storage tanks, pumping equipment and other articles used in connection with the retail sale of petrol, or to any agreement for the loan of such equipment if the only solus tie in the agreement is a term restricting the petrol in relation to which the equipment may be used; or
- (ii) shall preclude the Company from making the right to determine the operation of a solus tie conditional upon
  - (a) the repayment by the retailer of the outstanding amount of any monies loaned to him by the Company or an associated company together with such amount by way of interest as may then be due under the loan agreement; and
  - (b) the payment of all sums due to and demanded by the Company or an associated company in respect of petrol or other goods supplied for resale at the relevant filling station.

### Undertaking as to solus ties in future agreements relating to the supply of petrol equipment

(2) The Company will include in any petrol equipment agreement containing a solus tie which is excluded from the scope of paragraph (1) above by head (i) (b) of the proviso to that paragraph, a term to the following effect:

- (a) in the case of a credit sale agreement, a term permitting the retailer to determine the operation of the solus tie at any time more than five years after the installation of the relevant equipment by giving such notice (not exceeding 12 months) as may be required by the agreement and before the expiry of the notice tendering payment of the whole amount still to be paid under the agreement;
- (b) in the case of a hire purchase agreement, a term permitting the retailer to acquire ownership of the relevant equipment and to determine the operation of the solus tie at any time more than five years after the installation of the equipment by giving such notice (not exceeding 12 months) as may be required by the agreement and before the expiry of the notice tendering payment of the whole amount still to be paid under the agreement;
- (c) in the case of a hiring agreement or any other agreement for the loan of equipment, a term affording the retailer, by giving such notice (not exceeding 12 months) as may be required under the agreement an option exercisable at any time more than five years after the installation of the equipment to return the relevant equipment to the Company or to purchase the equipment in question free of the solus tie at such price as may be stated in, or fall to be calculated in accordance with, the terms of the agreement being a price which is not unreasonable in relation to the value of the benefit which is conferred by the acquisition having regard to the cost to the Company of providing and, where appropriate, installing and maintaining the equipment less any payments made to the Company by way of hire;

Provided that nothing in this paragraph shall apply to any agreement, relating to equipment exclusively for use on company premises.

### Undertaking as to future loan agreements

(3) The Company will not enter into any agreement for or connected with the giving of a loan to a petrol retailer which includes a term the effect of which is or may be that the amount or date of any repayment is fixed or to be determined by reference to any quantity of, or the price of any quantity of, petrol acquired for sale or sold at any petrol filling station affected by a solus tie other than a filling station standing on company premises.



Undertaking as to the determination of existing solus petrol ties

(4) The Company will permit any petrol retailer carrying on business at a petrol filling station affected by a solus tie included in an agreement made before the date of this undertaking (being an agreement which will or may have effect after the expiry of the period of five years hereinafter mentioned), by giving 12 months' written notice, to determine the operation of the tie in relation to that station without any penalty whatsoever at any time more than five years after the date of these undertakings or five years after the date on which the Company or an associated company first supplied petrol for retail sale at that filling station, whichever is the later:

Provided that nothing in this paragraph—

- (i) shall apply to any agreement in so far as it relates to a filling station situated on company premises or in a motorway service area or to equipment for use at such a station;
  - (ii) shall require the Company—
    - (a) to continue to supply petrol to a petrol retailer at a filling station which has ceased to be affected by a solus tie or to discharge further any other obligation connected with the promotion of petrol sales at such a station; or
    - (b) to permit a solus tie to be determined at a time when the retailer has not paid all sums due to and demanded by the Company or an associated company in respect of petrol or other goods supplied for resale at the relevant filling station; or
    - (c) to permit a solus tie to be determined unless the retailer tenders payment of the whole amount still to be paid under any hire purchase or credit sale agreement made between him and the Company or an associated company and relating to equipment for use by the retailer in the course of his business;
    - (d) to permit a solus tie to be determined unless the retailer tenders payment of the outstanding balance of any sums loaned to him by the Company or an associated company in the course of his business together with an appropriate amount of interest;
    - (e) to permit the determination of any solus tie included in an agreement relating to the hiring or borrowing by the retailer of any petrol equipment unless the retailer either—
      - (i) in accordance with any appropriate term of the agreement governing the hiring or loan of the equipment returns the equipment to the Company or purchases it; or
      - (ii) where there is no such appropriate term makes and carries out such arrangements with the Company as to the return of that equipment or its purchase as the retailer and the Company may agree upon.
- (5) In relation to head (e) (ii) of the proviso to paragraph (4) above the Company will—
- (i) in any case where it is not reasonably practicable to remove the relevant equipment and the equipment is the Company's property, offer to sell it to the retailer at a price which is not unreasonable in relation to the value of the benefit which is conferred by the purchase having regard to the cost to the Company of providing and, where appropriate, installing and maintaining the equipment less any payments made to the Company by way of hire; and
  - (ii) obtain and accept an independent estimate of such a price in any case in which the retailer is not prepared to accept a price proposed by the Company.

## PART II (Ties as to lubricants etc.)

Undertaking as to future agreements restricting sales of lubricants, etc.

(6) The Company will not enter into any future agreement with a petrol retailer (including a tenant or licensee of company premises) the effect or intended effect of which is:

- (a) to require the retailer to limit the brands of lubricants, kerosene or anti-freeze preparations acquired for sale, offered for sale, used, sold, displayed or advertised by him in the course of his retail business;
- (b) to require the retailer to acquire for sale, use or sell in the course of his retail business a specified proportion (however expressed) of lubricants, kerosene or anti-freeze preparations of a particular brand;
- (c) to give the retailer a right to a rebate, discount or other advantage (whether financial or otherwise)—
  - (i) for restricting the lubricants, or kerosene or anti-freeze preparations acquired for sale, offered for sale, used, sold, displayed or advertised, in the course of his retail business to lubricants or kerosene or anti-freeze preparations of a particular brand; or

- (ii) for limiting in any way the quantity of any brand of such goods which is acquired for sale or stocked or the manner in which any brand of such goods is displayed, offered for sale or advertised by him in the course of his retail business; or
- (iii) calculated by reference to the relative amounts of such goods of different brands which are acquired, sold, stocked, used or displayed by him in the course of his retail business;
- (d) to require the retailer to take delivery of any specific quantity of lubricants to be supplied by the Company or an associated company at a time which is or may be more than three months after the date of the agreement.

PROVIDED THAT nothing in this paragraph shall apply to any agreement in so far as it

- (a) relates to the use of a lubricating bay at a petrol filling station standing on company premises or the advertising of the services provided in such a lubricating bay; or
- (b) restricts the use of lubricating equipment supplied by the Company or an associated company in connection with lubricants not supplied by the Company or an associated company.

Undertaking as to future ties in respect of lubricating equipment

(7) The Company will not enter into any future agreement with a petrol retailer prohibiting or restricting the use of any lubricating equipment in connection with lubricants not supplied by the Company or an associated company except where the equipment is supplied by the Company or an associated company—

- (a) on loan or hire purchase or credit sale terms; or
- (b) for use in a lubricating bay at a petrol filling station standing on company premises.

(8) Where the Company after the date of these undertakings enters into any agreement for the supply on hire or loan of any lubricating equipment for use on premises other than company premises or any agreement for the supply on hire purchase or credit sale terms of any such agreement for use on any premises and the use of the equipment in connection with lubricants not supplied by the Company or an associated company is prohibited or restricted the Company will—

- (i) where the equipment is supplied on credit sale or hire purchase terms, permit the retailer to determine the operation of the prohibition or restriction at any time when all the instalments have been paid in full and to pay these instalments in full at any time;
- (ii) where the equipment is hired or loaned permit the retailer to determine the hiring or loan at any time by giving three months' notice and returning the equipment in question before the expiry of the notice, or where there are practical difficulties involved in returning the equipment by purchasing it at a price stated or provided for in the agreement being a price which is not unreasonable in relation to the value of the equipment at the time of purchase.

Undertaking as to existing agreements

(9) The Company

- (i) will not grant any such rebate discount or other advantage as is mentioned in paragraph (6)(c) above under any agreement made before the date of this undertaking save in so far as it is required to do so in discharge of a contractual obligation;
- (ii) will not enforce any agreement made before the date of these undertakings in so far as the agreement would, if made after the date of these undertakings involve a contravention of paragraph (6) (a), (b), or (d) or paragraph (7) of these undertakings;
- (iii) will permit any retailer party to any existing hire purchase, credit sale or hiring or other agreement for the loan of equipment to act in such manner as would be required to be permitted by virtue of paragraph (8) if the agreement had been made after the date of these undertakings and accorded with that paragraph.

PART III (Commission arrangements etc.)

Undertaking as to future agreements

(10) The Company will not enter into any future agreement or arrangement the purpose or effect of which is to entitle the Company or any associated company to any commission or other similar benefit in respect of—

- (i) any acquisition for sale of tyres or batteries or other motor vehicle accessories or articles unconnected with motor vehicles, or
- (ii) any sales of any such goods

by a petrol retailer in the course of his business at a petrol filling station (whether on company premises or not) affected by a solus tie included in an agreement made between the retailer and the Company or an associated company.

#### Undertaking as to existing agreements

(11) The Company will not after the date of these undertakings accept any such commission or other benefit as is mentioned in paragraph (10) under any agreement or arrangement made before the date of these undertakings:

PROVIDING THAT nothing in paragraphs (10) or (11) of this undertaking shall apply to any agreement or arrangement—

- (a) in so far as it related to any goods supplied or to be supplied to a petrol retailer by the Company or an associated company; or
- (b) in so far as it requires payments to be made by a retailer who is a tenant or licensee of company premises by reference to his acquisitions or sales generally or by reference to his acquisitions or sales of goods of any specified class not being a class so described as to distinguish between comparable goods of different brands, manufacturers or suppliers.

#### Undertaking as to future agreements

(12) The Company will not enter into any future agreement with a petrol retailer—

- (a) restricting the acquisition for sale, stocking, exposing or offering for sale or selling of any goods (other than petrol or lubricants) at any petrol filling station affected by a solus tie included in an agreement made between the retailer and the Company or an associated company or
- (b) restricting the advertising at such a station of any goods (other than petrol or lubricants) ordinarily sold at that station,

if the restriction is intended or calculated to require the retailer to discriminate between comparable goods of different brands, manufacturers or suppliers.

#### Undertaking as to the enforcement of restrictions in existing and future agreements

(13) The Company will not enforce any restriction of the type described in paragraph (12) above (whether included in an agreement made before or after the date of these undertakings and, if in an agreement made before that date, whether or not intended to require the retailer to discriminate between comparable goods of different brands, manufacturers or suppliers) with the intention of requiring such discrimination.

### PART IV (Options and rights of pre-emption)

#### Undertaking as to future agreements

(14) The Company will not include in any future agreement relating to the loan of monies for use in connection with the purchase, construction or improvement of a petrol filling station any term or condition giving it or any associated company—

- (a) an option to acquire any interest in the premises on which the filling station stands; or
- (b) a right of pre-emption in respect of any interest in those premises

which is exercisable at any time after the loan (including interest) has been repaid in full.

#### Undertaking as to existing agreements

(15) The Company will not exercise any option or right of pre-emption such as is described in head (a) or (b) of paragraph (14) that it enjoys under any existing agreement relating to the loan of monies for use in connection with the purchase, construction or improvement of a petrol filling station at any time after the loan (including interest) has been repaid in full.

### PART V (Company owned stations)

#### Future acquisitions

(16) If in the year 1965—

- (a) more than 50 million gallons of petrol were sold to the public by retail in the United Kingdom as petrol supplied by the Company or an associated company, that is to say either under the name of one of those companies or under a brand name belonging to one or more of them; AND
- (b) more than 15 per cent of the petrol was so sold at company filling stations,

the Company will ensure that the number of company filling stations in operation at any one time during the period between the date of these undertakings and the end of the first following calendar year in which the conditions described in heads (a) and (b) above are not satisfied does not exceed the number of reckonable stations on February 10, 1966.



(17) If in 1966 or any later year the conditions described in heads (a) and (b) of paragraph (16) are satisfied (but the provisions of that paragraph do not apply in that year because these conditions were not satisfied in the previous year) the Company will ensure that the number of company filling stations in operation at any one time between December 31 of that year and the end of the first following calendar year in which the said conditions are not satisfied does not exceed the number of reckonable stations on the said December 31.

(18) For the purposes of paragraphs (16) and (17)

- (a) 'petrol' does not include automotive diesel fuel;
- (b) 'company filling stations' means petrol filling stations on company premises or on premises in which a joint company or a related company (as hereinafter defined) has any freehold or leasehold interest (otherwise than as mortgagee) or on premises in respect of which such a joint company or related company enjoys a licence which enables it to sell petrol by retail or to permit others to sell petrol by retail;
- (c) 'reckonable stations' means the aggregate number at the relevant date, of
  - (i) petrol filling stations then in operation as company filling stations;
  - (ii) petrol filling stations then under construction on premises which were company premises or premises in which a company which was at that time a joint company or related company had a freehold or leasehold interest or in the case of land in Scotland had the interest of an owner or a leasee; and
  - (iii) sites for petrol filling stations which the Company or an associated company or a company which was then a joint company or a related company had at that date acquired or contracted to acquire, being sites in respect of which planning permission for the establishment of a petrol filling station had been granted before that date but on which construction had not then been started.
- (d) 'joint company' means any company one half of whose issued shares are held either by the Company or by the members of any group of which the Company may be a member;
- (e) 'related company' means any company (not being an associated or joint company) in which the Company or a member or members of any group of which the Company may be a member has or have a material interest other than a company in which the Company or any member or members of such a group enjoyed a material interest before the date of these Undertakings;
- (f) 'material interest' means the right directly or indirectly to determine the manner in which one quarter of the votes which could be cast at a general meeting of the Company are to be cast on matters and in circumstances not of such a description as to bring into play any special voting rights or restrictions on voting rights.
- (g) an extension of an existing petrol filling station by new construction on land which is contiguous to the land on which that station stands or on land which has overlapping frontage on the opposite side of the same highway (whether a single or dual carriageway) shall not be treated as creating a separate petrol filling station for the purposes of paragraphs (16) or (17).

## PART VI (Leases and licences of Company Filling Stations)

Undertaking as to future leases etc. of petrol stations

(19) Subject to the exceptions in paragraph (21), the Company will not grant or agree to grant a lease of premises on which a petrol filling station stands or grant a licence affording a right to sell petrol by retail on such premises for a period of less than three years.

Undertaking as to the extension of current leases etc.

(20) Where the Company has during the period of three years immediately preceding the date of these undertakings granted or agreed to grant a lease to a petrol retailer for a period of less than three years or has during that period granted a licence to such a retailer affording a right to sell petrol by retail on such premises for a period of less than three years and the retailer is still in possession of the premises or exercising the licence at the date of these undertakings the Company will, if so requested by the tenant or licensee, agree (subject to the exceptions in paragraph (21) to extend the duration of the tenancy or licence to three years from the commencement thereof without otherwise varying the terms of the tenancy or licence.



(21) Nothing in paragraph (19) or (20) shall—

- (i) prevent the inclusion in any lease or licence of any provision making the lease or licence determinable if in any specified period a specified quantity of petrol has not been sold;
- (ii) preclude the Company from granting or agreeing to grant leases or licences, that is to say leases or licences for a period not exceeding 12 months to persons who have not previously held any lease or licence of any company premises or require the extension of any such lease or licence;
- (iii) require the grant by the Company of any further lease or licence to a tenant or licensee who has been in possession of any premises for a period of not less than three years or any extension of the lease or licence of such a tenant or licensee;
- (iv) preclude the grant of a further lease or licence of any premises for a period of less than three years to a tenant or licensee who has been in possession of those premises for a period of not less than three years;
- (v) apply as respects any premises which the Company has agreed or arranged should be demolished or reconstructed within the period for which the lease or licence would by virtue of paragraphs (19) or (20) require to be granted or extended;
- (vi) require the grant or extension of any lease or licence of any premises which are the subject of compulsory purchase proceedings or any grant or extension of any lease or licence where any other circumstances outside the control of the Company make it legally impracticable to comply with the requirements of paragraphs (19) or (20);
- (vii) require any extension of a lease or licence where the tenant or licensee is in breach of any of the terms of his lease or licence;
- (viii) preclude the grant of a licence of any premises for a period not exceeding 12 months following the death or insolvency of a tenant or a previous licensee.

#### PART VII (Definitions and Interpretation)

(22) In these undertakings—

- (i) 'petrol' includes automotive diesel fuel (except for the purposes of paragraphs (16) and (17));
- (ii) 'petrol retailer' means any person who carries on a business in the course of which he holds himself out as willing to sell petrol for direct delivery into the fuel tanks of motor vehicles;
- (iii) 'agreement' includes a mortgage or loan agreement unless the context requires otherwise;
- (iv) 'solus tie' means any term the effect or intended effect of which is to prohibit or restrict the acquisition for retail sale, or the retail sale, at any petrol filling station, of petrol which is not supplied by the Company or an associated company, but shall not be taken to include a term providing for the payment of rebate by reference to any quantity of petrol supplied or sold or any term relating to the purchase of a specific quantity of petrol from the Company or an associated company;
- (v) 'petrol equipment' means such equipment as is described in head (i)(b) of the proviso to paragraph (1);
- (vi) 'lubricants' means any oil or grease intended for lubricating;
- (vii) 'lubricating equipment' includes tanks for the storage of lubricants, racks or cupboards for the storage of pre-packed lubricants and any equipment, instrument or vessel intended to facilitate the application of lubricants to a vehicle or the insertion in vehicles or removal from vehicles of lubricants, and includes a hoist or a lift;
- (viii) 'lubricating bay' means any part of a petrol filling station where there is situated a pit, lift or hoist, being a part of the station primarily or exclusively used for lubricating vehicles, and references to the use of a lubricating bay are references to the use for lubricating of the pit, lift or hoist situated in the bay;
- (ix) 'kerosene' means kerosene for burning or illuminating;
- (x) 'company premises' means any land owned or leased by the Company or an associated company or in respect of which the Company or an associated company enjoys any licence which entitles it to sell petrol to the public by retail there, or to permit any other person so to sell petrol there;
- (xi) 'associated company' means any company which is a member of the same group as the signatory company;
- (xii) 'group' means a body corporate and all other bodies corporate which are subsidiaries thereof within the meaning of Section 154 of the Companies Act 1948\*;

\* In the case of Shell Mex and BP Ltd. this definition is to be modified so as to operate as if the Company were a subsidiary of the British Petroleum Company Limited as well as a member of the Shell group.

- (xiii) references to leases include subleases;
  - (xiv) references to retail sales are references to sales for use or consumption by the buyer and do not include sales with a view to resale by the buyer.
- (23) For the purposes of these undertakings no account shall be taken of any agreement in so far as it relates to any petrol filling station situated outside the United Kingdom or of any supply of petrol, lubricants or other goods outside the United Kingdom.
- (24) In relation to land in Scotland—
- (a) 'owner' includes any person who, under the Lands Clauses Acts, would be enabled to sell and convey the land to the promoters of an undertaking;
  - (b) 'lease' includes sublease;
  - (c) 'licence' includes any form of permission not amounting to a lease; and
  - (d) 'mortgage' includes a heritable security, however constituted; and cognate expressions shall be construed accordingly.

## EXPLANATORY NOTES

These notes are primarily a summary of the undertakings given to the Board of Trade by suppliers of petrol to retailers in the United Kingdom. Although they are not, therefore, an integral part of the undertakings, they may nonetheless be read in conjunction with them to spell out the intended effect of the undertakings in circumstances which the Board of Trade have been given to understand are of particular interest to the trade.

*Part I* of the Undertakings refers to solus petrol ties and reflects the safeguards sought by the Board in the light of Recommendations 1-3 of the Monopolies Commission's report.

*Part II* is directed to agreements restricting sales of lubricants, etc., which were covered in Recommendation 4 of the report.

*Part III* regulates agreements between a petrol company and suppliers of goods such as tyres, batteries, other motor car accessories and other goods which a petrol retailer might wish to stock besides petrol. Recommendation 5 of the Commission's report looked at this question.

*Part IV* turns to a supplier's rights of option and pre-emption arising from loans to buy, build or improve petrol stations. The Commission made their Recommendation 6 on this point.

*Part V* contains undertakings as to the ceiling which major suppliers will accept on the total number of company-owned stations. The Monopolies Commission made their own suggestions for an appropriate control at Recommendation 7 of their report.

*Part VI* covers the minimum period of tenancies and licences of company-owned stations, which the Commission's report dealt with in Recommendation 8.

Finally, *Part VII* contains the definitions of a number of terms used in the undertakings.

### Part I—Solus petrol ties

1. This undertaking does not affect arrangements between companies and their own tenants or licensees, nor arrangements in respect of motorway service areas.
2. In this undertaking the term petrol includes automotive diesel fuel.
3. Examples of a 'solus tie' (which may extend to arrangements at multibrand sites) are: a term whereby a retailer agrees to obtain petrol exclusively from a particular company; a term whereby a retailer agrees to obtain X per cent of his supplies of petrol from a particular company; a term whereby a retailer agrees to sell only a particular company's petrol through—say—eight out of ten of his pumps; a tie on the use of any pump or any other piece of petrol equipment. (This list is not exhaustive.) The mere offering of a quantity rebate does *not* constitute a 'solus tie' as defined in the undertakings (see paragraph [22]).
4. Paragraph (1) of this undertaking governs the terms of future restrictive solus agreements on petrol between petrol suppliers and independent petrol retailers (other than hire purchase, credit sale hiring and loan agreements relating to petrol equipment which contains *only* ties which limit the use of the equipment: these are, for convenience, dealt with separately in paragraph [2]).
5. Paragraph (1) regulates the duration of the tie which may be included in an agreement made after the undertaking is given. Five years is to be the maximum fixed term; the tie may run on thereafter, if the retailer can terminate it on giving 12 months' notice at any time (i.e. at any time from four years after the start of the five-year period). A tie accepted in conjunction with a loan or mortgage agreement may be expressed to extend until the loan is repaid, but the retailer must have the option (provided he will meanwhile have repaid the loan) of ending the tie at any time after five years, subject to the same provisions about notice. If the retailer has not repaid a loan he can be required to repay it before determining the solus tie. Similarly he may be required to settle all outstanding payments due for petrol supplied to the filling station.

6. The undertaking provides for the five-year period to be calculated from the date when the supplier's petrol is first supplied, since this may in some cases be much later than the date of the agreement.

7. Companies will be free to include in future agreements terms restricting to the period of the 'solus tie' any of their obligations, e.g. to supply petrol (either at all, or on favourable terms), or to assist in sales promotion or the maintenance of a station.

8. Paragraph (2) of this undertaking regulates all agreements, made after the undertaking is given, for the supply of petrol equipment (on hire purchase, credit sale, hire or free loan) which confine the 'solus tie' to restriction of the use of the equipment in question.

9. The general effect of the undertaking is that arrangements for the supply of 'tied' equipment must be terminable after an initial period of five years. In the case of hire purchase and credit sale agreements provision must be made for the retailer to terminate the tie by giving 12 months' notice, provided that he will meanwhile have completed payments under the agreement. In the case of hiring or free loan agreements, petrol companies must give the retailer an option to purchase the equipment at a reasonable price or to return it. It will be for the parties to take account of the undertaking when drawn up the terms of the agreement, and to set out the basis on which the value of the equipment is to be calculated if the retailer exercises his option to acquire it. No mention is, therefore, made in the undertaking about an independent valuation or the particular provision to be made as respects the return of equipment.

10. The purpose of paragraph (3) of this undertaking is to ensure that arrangements for a loan from a company to an independent petrol retailer affected by a 'solus tie' should always provide a definite date for repayment or (where appropriate) for the payment of instalments. Amounts of repayments must be fixed but the undertaking will not preclude a supplier from actually taking payment by retaining earned rebate.

11. Paragraph (4) of Part I covers solus petrol ties in agreements made before the date of the undertakings. It defines the circumstances in which companies subscribing to the undertaking will be required to permit the premature termination of 'solus ties' accepted by independent petrol retailers.

12. The Board of Trade consider that it is equitable that the same principles should be applied to *all* existing 'solus ties', whether or not they were originally included in a loan or mortgage or any other agreement.

13. The undertaking provides generally that all ties can continue up to a further five years from the date on which the undertaking is given, or, when petrol has not yet been supplied to a filling station on a solus basis, five years from the date at which it is first so supplied.

14. The undertakings envisage a fair winding-up of existing arrangements between the retailer and petrol company on the same general basis as is applied to future agreements under the preceding undertakings.

Thus:

- (a) the retailer may give 12 months' notice at any time (i.e. at any time from four years after the start of the five-year period);
- (b) a supplier need not permit a tie to be terminated unless a retailer's loan, hire purchase and credit sale commitments to the petrol company are settled;
- (c) a supplier need not accept termination of a tie until the retailer had cleared his outstanding accounts for petrol and other goods supplied to the filling station;
- (d) the supplier may make it a condition of accepting termination that the retailer will release him from any further contractual obligation to supply petrol to the filling station or to promote its sales. Thus, in particular, a supplier could require a retailer to release him from an obligation to supply further petrol *on solus rebate terms* as a condition of ending the 'solus tie';
- (e) special provision is made as respects hired or free loan petrol equipment which is subject to a 'solus tie'. Unless the relevant agreement contains provisions which enable the retailer to return or to purchase the equipment, suppliers may make suitable arrangements for the acquisition of the equipment by the retailer or its return. They will be expected to sell to retailers at a reasonable price equipment such as petrol storage tanks which cannot easily be removed.



## Part II—Sales of lubricants, etc.

15. The intention of Part II is to remove certain restrictions at company-owned stations, as well as at the stations of independent retailers, in respect of the sale of lubricants, kerosene and anti-freeze preparations or lubricating equipment. It applies to kerosene only as fuel for illumination or heating.

16. In certain circumstances agreements which impose some restriction on the use of lubricants in particular lubricating bays, or through particular items of equipment, will be permitted. In some respects, the undertaking distinguishes between the position at company stations and at others. The undertaking, therefore, does *not* preclude a supplier from

- (a) restricting the lubricants which may be used in a lubricating bay (as defined in Part VII) on company premises (e.g. by a tenant or licensee of the company);
- (b) restricting the use of lubricating equipment (on h.p., credit sale, hire or free loan), whether supplied to a tenant, licensee or independent retailer. *But* independent retailers will be entitled to end ties at any time, by paying off the outstanding instalments of a credit sale or hire purchase agreement, or by purchasing or returning hired or loaned equipment (subject to three months' notice). A company tenant or licensee will have a similar right in the case of equipment on h.p. or credit sale, but not in the case of hired or loaned equipment, which is the company's property.

17. All other restrictions are prohibited by this undertaking, i.e. there could be no restriction on the lubricants to be sold on the forecourt by any retailer (including a tenant or licensee), or on the general use of a lubricating bay on an independent station. In the latter case, the only permissible tie would be on the equipment, if that were on hire purchase, credit sale, hire or free loan from a supplier; and even that must be open to termination.

18. With these qualifications, the general effect of the undertaking is that the decision as to what lubricants to stock or use will rest with the retailer. This is reinforced by the provision of paragraph 5(d) of the undertaking which limits forward supply agreements for *specific quantities* to periods of three months ahead.

19. The undertaking does not preclude general limitations on advertisement in a trade or licence agreement. For example, a landlord remains entirely free to prohibit the fixture of advertisements to buildings, or the use of free-standing signs. However, to the extent that advertisement is permitted generally, it will not be open to a landlord to impose additional restrictions on the advertisement of particular brands of lubricants, kerosene or antifreeze.

## Part III—TBA agreements

20. Under paragraphs (10) and (11) of the undertakings a supplier may not participate in arrangements under which he stands to benefit from the promotion of another company's brands of TBA, etc., by his solus retailers, tenants or licensees. The proviso makes it clear that the undertakings do not preclude the supplier (or its subsidiary) from taking part direct in the TBA business, although this would be likely to result in some financial benefit for itself, nor from receiving a rent calculated on a tenant's general TBA business.

21. Under paragraphs (12) and (13) of the undertakings a supplier may not oblige a retailer to discriminate in the course of his business between comparable goods of different brands, manufacturers and suppliers.

22. This undertaking does not preclude a supplier, in his capacity as landlord, from regulating generally what business is carried on at company premises. A landlord will remain free to impose general restrictions on his tenants or licensees, e.g. by prohibiting the retailer from dealing in used cars, or from displaying banner advertisements. To the extent that dealing in a particular type of goods is permitted, however, the supplier may not impose further discriminatory requirements, e.g. to require a retailer to promote the sales of one brand while prohibiting the promotion of another. The undertaking does not, of course, preclude a restriction in general terms, e.g. prohibiting the sale of goods not complying with a British Standard, but it would not be compatible with it to *seek to regulate the brands* of goods sold on general grounds of serviceability.

23. It has been represented to the Board of Trade that an undertaking on these matters might operate to prevent a landlord from making advantageous arrangements with—for example—a catering company for the supply of refreshments on one or more of his sites or granting a franchise in respect of cigarette vending machines. This is not the effect of the undertaking. Paragraphs (13) and (14) apply only to *discriminatory* requirements imposed on a *petrol retailer* in the course of his business. It will remain open to a supplier, within the terms of the undertaking, to require a retailer not to conduct any catering business himself or not to sell cigarettes, and at



the same time to agree an exclusive concession with a third party for the direct operation of a catering business or the installation of cigarette vending machines. Paragraphs (10) and (11) are equally irrelevant to this situation, since they relate only to sales made by the petrol retailer himself.

#### Part IV—Options and rights of pre-emption

24. Part IV provides that where an option to buy a filling station or a right of pre-emption has been granted as part of a loan arrangement connected with the laying, building or improvement of the station, these rights will be limited to the period for which the loan is outstanding.

#### Part V—Company-owned stations

25. The undertaking in Part V regulates the further acquisition of filling stations by companies in whose case both of two conditions are fulfilled; first, that total annual retail sales of their brands of petrol exceed 50 million gallons; secondly, that 15 per cent or more of this business is through company stations. No restriction whatever applies to a company whose total annual retail sales are less than 50 million gallons, or to companies whose annual sales exceed 50 million gallons, but are not made to the extent of 15 per cent through company stations. (For the purpose of calculating the 50 million gallons or calculating 15 per cent no regard is to be had to petrol sold to other suppliers for retail sale under their brand name or to petrol sold by retail at company filling stations under the brand of other suppliers.)

26. If a company's sales already conformed to this pattern in January-December 1965, the ceiling to the number of its own petrol stations will (subject to paragraph 28 below) apply as from the date of the undertakings, and the ceiling will be fixed at the number of these stations (including sites which it already owned or for which it had legally binding contracts and for which there was planning permission to build a station) on February 10, 1966.

27. Any company whose sales achieve the 50 million gallon/15 per cent pattern only in the course of January-December 1966, or any subsequent year, will be subject to the ceiling from the following January 1 (subject to paragraph 28 below). In their case the ceiling will be the maximum number of these stations at the end of the key sales year (again taking into account sites already owned or under legally binding contract and for which there was planning permission to build a station).

28. The Board has been asked about companies falling within paragraphs 26 and 27 above if their sales fall below the crucial 50 million gallons/15 per cent tests: will the ceiling still apply to the number of stations in their ownership? The tests are computed on a full calendar year's sales. If between January 1 and December 31 of any year, a company had sold less than 50 million gallons or had sold through company stations less than 15 per cent of its total sales, as from the immediately following January 1 the ceiling would not apply until the end of a year when the company once more found itself in the position described in paragraph 27 above.

29. There is no restriction, whether absolute or relative, on the gallonage which may be sold through company stations, and it will remain open to a restricted company to expand output through its stations. Since the restriction is framed in this way, it will be open to a restricted company to acquire a new station, on the disposal of an old one, without being required to strike a balance between the throughputs of the two stations.

30. This undertaking covers not only stations in the direct ownership of a petrol company. It regulates also the numbers held by associates (i.e. members of the same group), 'joint' companies and 'related' companies. 'Joint' companies are those in which the supplier or members of the supplier's group hold a 50 per cent interest. 'Related' companies are those in which the supplier's group have an interest exceeding 25 per cent acquired after the date of the undertakings.

31. The genuine extension of an existing petrol station is not to be regarded as the acquisition of a new petrol station, and for this purpose the construction of a petrol station on the opposite side of the road is treated as the extension of an existing station.

#### Part VI—Leases and licences of company filling stations

32. The general effect of Part VI is to commit companies in future to grant leases or licences for periods of at least three years, subject to certain exceptions for:

- (a) a gallonage provision;
- (b) trial agreements with new tenants or licensees;
- (c) certain cases where three-year leases or licences are impracticable;
- (d) certain caretaker licences.

33. The undertaking also commits the companies to extend existing leases or licences (other than trial leases or licences) which have been granted during the last three years for lesser periods than three years if the tenant or licensee so request. The terms of the undertaking do not permit the landlord to take this occasion to amend the terms of the lease.

34. The undertaking does not preclude the extension of a lease or licence for less than three years provided that it was initially granted for a period of at least three years.

### **(3) U.S. Intervention—Legal Cases and Legislation**

#### **The West Coast Oil Case**

The United States of America commenced a civil action in the United States District Court of the Southern District of California against a number of large oil companies including Standard Oil Company of California, Shell Oil Company, the Texas Company (Texaco) and others. The complaint alleged a number of things including combination and conspiracy to monopolize and to restrain trade. Proceedings commenced in May of 1950 and final judgment was not entered until June of 1959. There were various pre-trial hearings and meetings to explore settlement of all or some of the issues. These lengthy proceedings finally resulted in a consent judgment before any testimony was taken and without trial and without adjudication. These proceedings which lasted for nine years were known as the "West Coast Oil Case" or "The Carter Decree".

One of the items that gave the greatest difficulty in discussions of possible settlement was the continuing demand of the Plaintiff, the United States of America, that each of the oil companies be enjoined from engaging in the business of selling refined petroleum products at retail, either through its own employees or by other persons designated as agents, consignees or managers, as prayed for in Prayer 17.

In Prayer 17, the Plaintiff sought "divestiture" and "divorcement" defining divestiture as a requirement that defendants divest themselves of all right, title and interest, whether ownership, leasehold or other proprietary interest in service stations and other retail outlets and that they not be permitted to acquire any in the future; and defining divorcement, as a requirement that the defendants now engaged in the business of selling refined petroleum products at retail either through their own employees or by agents, consignees or managers should cease such business and that no oil company be permitted to engage in such business in the future.

On the basis of written statements, presentations and oral arguments made during hearings which were not a part of trial, or the taking of testimony, the Court ruled that even if at the trial of the case it should be proved to the Court's satisfaction that the defendants had violated provisions of the Sherman Act against unlawful restraints and monopolies, the court should not and would not grant divestiture or divorcement.

The final judgment consented to by all parties was divided into several parts and involved many pages.

In part V, the consenting defendant oil companies were prohibited from agreeing to control the production of crude oil in the Pacific states area with the objective of fixing the price of such crude oil or the price of refined petroleum products.

Part VI of the judgment is also concerned with prohibitions against fixing prices for crude by agreement or by reference to prices posted by other defendants.

Part VII of the judgment was concerned with prohibiting discriminatory practices with respect to exchange agreements, agreements for the use of pipelines, or agreements for the use of facilities for transportation, storage or loading of crude oil or refined petroleum products.

Part IX of the judgment prohibits the defendant oil companies from using contracts which required sellers of crude oil to curtail their production of crude oil.

Part X of the judgment prohibits agreements to fix prices for refined petroleum products and agreements to adhere to the posted prices for the sale of such products.

Part XI of the judgment prohibits the defendant oil companies from entering into agreements with resellers whereby they will resell at a price, or at not less than a minimum price, or at not more than a maximum price, fixed by the oil company.

Part XII of the judgment deals with supply agreements offered by oil companies to dealers and with leases of premises offered by oil companies to dealers.



Part XIII prevents oil companies from including in a supply contract with a distributor, an option to purchase his property or from exercising any such option in existing agreements.

Part XIV of the judgment prohibits the oil companies from entering into or enforcing an agreement with the dealer which requires the dealer to purchase from the oil company or a source designated by the oil company, the dealers requirements of refined petroleum products, or of tires, batteries or accessories or which require the dealer to refrain from handling such products obtained from any other source.

Part XV of the judgment prohibits the companies from agreeing with one another or following a policy or practice of refraining from entering into any lease or supply contract with a dealer unless consent is obtained from the other oil company which has been supplying refined petroleum products to such dealer.

This final judgment continues in effect for the fifteen year period from 1960 to 1975.

#### **Tire Cases**

In the West Coast Oil Case, the U.S. Government attacked a number of different contract ties. There have been other United States cases where a single tie or practice has been attacked.

For instance in the sale of tires, batteries and accessories coercion by oil companies was examined in the following tire cases

- (a) in the matter of B. F. Goodrich and The Texas Company,
- (b) in the matter of the Goodyear Tire and Rubber Company and the Atlantic Refining Company,
- (c) in the matter of Firestone Tire and Rubber Company and Shell Oil Company.

The courts found that the oil companies exercised enough power over their dealers to constitute inherent coercion, and accordingly the commission agreements between the suppliers and the oil companies were declared illegal (Chapter 13, Item [5]).

#### **Commission Consignment Cases**

Commission consignment selling of gasoline was held to be illegal by the Supreme Court of the United States in a judgment dated the 20th of April 1964 against Union Oil Company of California. The court found that the plan was an effort to fix prices at thousands of retail service stations and that Union Oil used coercion against the dealers to bring them into line.

The Federal Trade Commission of the United States was also successful under Section 5 of the Federal Trade Commission Act in striking down commission consignment plans in cases involving Sun Oil Co. and Atlantic Refining Co. (Chapter 34 Item [3]).

#### **Advertising Legislation**

The service station operator is subject to ties related to his advertising. The compulsion exerted upon dealers to contribute toward the cost of promotional contests and games sponsored by oil companies is enabled by the advertising and other ties. The states of Maryland and Massachusetts have enacted legislation prohibiting oil companies from promoting or operating such games and contests (Chapter 16, Item [6]).

#### **Price Fixing**

Eight oil companies were indicted on a charge of conspiring to fix gasoline prices in New Jersey, Pennsylvania and Delaware.

#### **(4) Canadian Intervention and Regulation**

One does not have to go to the United States or to Great Britain to find instances of legislative intervention in various aspects of the oil industry.

The government of Alberta has intervened to regulate the production of oil and gas by the Oil and Gas Conservation Act. The government has intervened to regulate refining and marketing by prorating production to market demand. The government has intervened to regulate the removal of gas from the province or the export of gas by the Gas Resources Preservation Act 1956. There are many other pieces of legislation such as the Natural Gas Utilities Act, the Pipeline Act, and

the General Code of Fair Competition and Business Practices under the Industry and Development Department Act.

Canada has legislation authorizing it to intervene in the oil industry by the National Energy Board, and by the Combines Act.

Governments intervene when they consider legislation is necessary in the public interest.

The Committee recommends that the government of Alberta intervene to enact legislation applicable to gasoline retailing for all of the same reasons that led The Monopolies Commission of Great Britain to recommend to Parliament the recommendations that have since been implemented in that country.

**(5) Continuing Research by Government**

One of the greatest problems encountered by this Committee was the problem of obtaining basic information, reliable data, and complete statistics. Fragments of information were available from various sources which had been compiled for specific purposes, but these were frequently difficult or impossible to correlate. No matter what aspect of the problem we tried to look at, essential elements of basic information were missing and did not appear to be available from any source.

Several departments of government have information designed to meet the needs of their particular area of administration. For instance, the Oil and Gas Conservation Board is well informed on matters of reserves, production, and conservation. The Department of Mines and Minerals has records relating to sales of mineral rights, leasing, and royalties. The Department of Industry and Tourism licenses businesses such as service stations, etc. Under the Fuel Oil Tax Act, the province collects substantial taxes on gasoline used on highways. The Department of Municipal Affairs, and municipal governments under its jurisdiction assess and tax oil and gas producing facilities, pipelines, refineries, gas plants and service stations.

There is no coordinating agency which examines these fragments of information or attempts to piece together these bits of the jigsaw puzzle to see the picture of the one industry in relation to government. When the one industry accounts for half of Alberta's total receipts, would it not be in the public interest to have a continuing agency to assemble and coordinate information and to conduct research where information is lacking?

What branch of government should do such a job? Perhaps consideration should be given to establishing a Bureau of Economic Research which would be able to draw on the resources and coordinate the facilities of existing branches of governments such as the Bureau of Statistics, the Research Council, and the specialized skills at the University, such as are found in the Economics Department and the Department of Business Administration.

For instance, this Committee was interested in the question "Do we collect from the international oil industry as much as other producing nations, or more, or less?" It sounds like a simple question, but we never succeeded in finding the answer to this basic problem.

For exporting nations, as compared with producing nations, the Organization of Petroleum Exporting Countries (OPEC) reports payments to governments of its member nations ranging from as low as 62¢ per barrel to as high as \$1.11 per barrel during the years 1956 to 1966 as shown in Table 118, or as shown for 1966 in Table 116. Alberta's receipts from royalties, rentals, and land sales, averaged from 1962 to 1966, were 40¢ per barrel according to an "Oilweek" article. The Committee's calculation of Alberta government revenue for the period 1952 to 1965 shown in Table 124 is made up of—

Crown land sales	\$ 0.31
Rentals	0.07
Royalties	0.13
<hr/>	
Total Alberta Revenues	\$ 0.51 per barrel

In the OPEC countries, payments to governments include income taxes. It took the Committee some time to obtain the particulars of what was included in



payments to the OPEC countries, (outlined in Chapter 29 dealing with crude oil costs and prices under the subtitle "High Government Revenues of Exporting Countries are the Largest Element of Producing Cost".) The Committee did not have information respecting income taxes collected from oil companies by Canada, (which would be required to calculate this payment in cents per barrel) to add to what Alberta collects, so our comparison could not be completed.

In Canada we also have municipal taxes on production facilities, pipelines, gas plants, refineries, etc., and we did not calculate what this amounts to in the aggregate for the industry. We do not know whether there are similar costs in underdeveloped producing countries.

The oil companies undoubtedly record, study, and analyze such data and make comparisons as between the countries in which they operate. This information is available to them in their negotiations with governments relating to taxes, production allowables, depletion, and export quotas.

This raises many questions. Would it be useful to exchange information with other governments which deal with the same companies and the same problems? With respect to OPEC, are we eligible to belong? Should Canada or Alberta belong to OPEC if eligible? What advantages and disadvantages would arise from membership in this group of governments?

In marketing the British Government's review of the "Undertakings" and how they are working would be useful information. Does the legislation enacted in Maryland and Massachusetts work satisfactorily in prohibiting the giving of chances and prizes by gasoline stations? (See Chapter 16). There has been eight years of experience in enforcing the consent judgment known as "The Carter Decree" obtained in the West Coast Oil Case. Have the restrictions imposed on the oil companies in that case been effective to cure the problems which led to the judgment? The oil companies, with which the Alberta Government deals, have this information. They continue to follow practices here which other governments are attempting to prohibit.

In the oil industry the companies are the active partners which operate the business and have access to all the information. The government is a silent partner which has a vital interest in a share of the earnings, but does not have as much information on which to base its decisions in dealing with the oil companies.

It seems to us that the silent partner in its own self interest could use better information respecting an industry which contributes so heavily to our economy and to government revenue. A continuing research group that could be asked questions, investigate problems, and compile statistics would contribute to the formulation of policy by government on the basis of more complete information, rather than on uncoordinated fragments of information and some speculation.

Existing bodies with defined duties in special areas such as the Conservation Board and the Bureau of Statistics do not seem to be quite appropriate to investigate and answer this type of question.

#### **(6) Government Records, Statistics, and Licensing**

The government as a general rule, does not record or publish statistics by companies, but only shows aggregate figures for all companies in an industry.

The purpose of this is to prevent disclosure of confidential information to competitive companies.

The eight gigantic companies which dominate the world oil industry are so closely interwoven in many of their activities that they know more about one another than any government can hope to know.

The Committee is convinced that the publication of such statistics as the government may collect about individual oil companies would not tell the companies anything they don't already know about one another in 90% of cases.

The most important effect of not recording information by company in the oil industry is to keep the government, the administration, and the public in ignorance of who the companies are, what they do, and the extent of their activities.

Frequently during the course of the enquiry we requested information from a company about some aspect of its activities, and the company could not give us the information in the form requested, or it was "not available". However, in a

number of such cases we obtained the information we desired from some other company, which obviously was in possession of detailed and accurate information about the activities of each other company engaged in the business. We were advised that some of the companies voluntarily exchange statistics.

The government of British Columbia until about ten years ago recorded and reported its oil statistics by company. However, it was persuaded to change this practice and it now reports for the industry.

There is no apparent reason why the licensing branch should not record the number of licensed service stations by company or brand. The oil company sales representative in each sales territory reports all information about competitors that his company wants to know. Such information is published for numerous countries by industry publications such as "National Petroleum News Factbook". Anyone interested can do a physical count, and the companies certainly know. The volume of automotive gasoline sales could also be recorded by company, because each company already knows what the others sell.

As an illustration Mohawk Oil Co., an off-brander operating in Alberta, made a submission to the Edmonton City Council in July of 1963. Their submission was supported by a study they made of the gasoline volume sold by service stations of other oil companies. A Mohawk representative did a daily meter reading from January 20th, 1963 to February 10th, 1963 of 68 named service stations. They accordingly had factual information as to the daily volume of these 68 stations over a long enough period to accurately project their monthly and annual volumes. The major companies have more extensive facilities and resources for accumulating and recording data in which they are interested than a small company like Mohawk.

It would be possible for the Department of Mines and Minerals to record many of its statistics by company such as those relating to: lands under lease or reservation or permit, rentals received, and royalties received. The government and the public would then have knowledge, to which they are entitled, as to who rents the mineral rights of the province, and what they have paid. The government should know what percentages of its mineral rights are held by the eight international companies and their subsidiaries.

There are a few sensitive areas, such as information relating to new discoveries, and estimates of reserves before a field is developed, which should remain confidential as at present. However, these are exceptions to the general rule, that in the oil industry statistics should be recorded and published by company.

Months of the time and effort of the Committee was devoted to the accumulation of facts and statistics, many of which we expected to have been available from public records maintained in the public interest.

As an example we expected to be able to determine the number of service stations in the province from the provincial licensing records. However, the licensing department does not require annual licensing. Accordingly, a man who took out a license many years ago, but never surrendered or cancelled it, will still appear in license records. When the Committee selected communities in which it wished to interview the service station operators, it provided the interviewers with a list from the license records of the names and addresses of the service station operators in each such community. In many cases the businesses no longer existed, the licensees could not be found, and they had not operated in the community for years.

The Automotive Retailers' Association in its brief to us stated their belief

"... that licenses for operation of service stations in this province should be renewed annually rather than given on a permanent basis to the licensee as at present".

The trends towards the extinction of privately owned service stations reported in Chapter 26, and the decline of independent wholesalers and refiners reported in Chapter 27, and the concentration of refining and retailing in the hands of the "cartel" companies, would have been apparent years ago from public records if such information had been compiled statistically by company.

Having regard to the serious proportions of business failure and lessee turn-over in service stations, and the desirability of having accurate information on this problem available to the Government, the Committee recommends:



- (a) that service station operators should be licensed annually;
- (b) that the license fee continue to be nominal;
- (c) that the license should be issued in the name of the person who actually operates or manages the retail business conducted in that particular station whether as lessee, owner, commission agent, or employee, and if the retail business is conducted by a company it shall designate the appropriate person in whose name the license shall issue;
- (d) that the application for license should provide enough information to the licensing officer to enable him to classify licensees in the classifications outlined in Chapter 6;
- (e) that when an operator terminates, the unexpired portion of his license should not be transferable;
- (f) that the new operator, whether owner, lessee, commission agent, or oil company employee who replaces a former licensee should obtain a new license for the balance of the annual license period.

Thus during the course of one annual license period in a station where a lessee terminates, who is followed by an oil company employee who operates it for a few weeks, who is followed in turn by a new lessee, there would be three licenses issued, each covering a portion of the annual license period. Statistics would accordingly be available from departmental records, from which the numbers of licensees in each classification and the turnover statistics could be accurately compiled.

In its report the Committee recommends that service station operators be given certain rights and freedoms. In Chapter 36 Item (4) the Committee has made recommendations relating to price. To compliment and support these recommendations the Committee recommends the following changes in licensing.

In connection with the marketing, distribution, and retailing of gasoline the Committee recommends that there should be four classes of licenses—

- (a) retail licenses (for service stations and other retail outlets for the sale of gasoline);
- (b) bulk licenses (for bulk agents and farm dealers);
- (c) wholesale licenses (for brand name marketing divisions and for off-brand wholesalers);
- (d) refining licenses (for refining divisions of integrated oil companies and for independent refiners).

The suggestions we have made relating to the licensing of service station operators apply equally to the licensing of bulk agents and farm dealers, and in particular each license should be in the name of the person who is actually operating the bulk agency or the farm dealership, and not in the name of the oil company for whom he acts as agent.

Any licensed retailer should have the right to purchase from any licensed wholesaler at the prevailing posted wholesale price.

Any licensed wholesaler should have the right to buy from any licensed refiner at the prevailing prices for refinery sales.

In Chapter 36 Item (3) the Committee considered the public interest in off-brand price competition and concluded that off-brand wholesalers need an assured supply of gasoline at a price which enables them to be competitive at retail. In Chapter 36 Item (4) our eighth recommendation also deals with this problem.

We accordingly consider that if a refinery unreasonably refuses or neglects to supply petroleum products to a licensed wholesaler in circumstances where it is required to do so to comply with the price recommendations, its refining license should be subject to suspension for a limited number of days in the discretion of the licensing officer. Similarly there should be a discretion to suspend the license of a licensed wholesaler who unreasonably refuses or neglects to supply the gasoline requirements of any retailer. For these purposes a refiner or wholesaler would not be behaving unreasonably if, in the case of a shortage of supply, he was treating all purchasers equally as nearly as reasonably possible by prorating his available gasoline. This would prevent problems such as those experienced by operators like McGregor, Roux, etc. (Chapter 20 [4]) (Chapter 20 [5]) (Chapter 20 [7]).

There is a relatively inelastic demand for gasoline which does not vary greatly. Refiners and wholesalers now experience no insurmountable difficulties in keeping their purchasers adequately supplied with gasoline. The mere existence of a power of suspension of licenses would probably make it unnecessary ever to use it.

The oil industry in the past has behaved in a monopolistic way and it has used various pressures to compel purchasers, whether retailers or wholesalers, to enter into long term exclusive buying agreements. Refusal to supply, or refusal to assure continuous supply, or periodic interruption of supply has been used to encourage purchasers to agree to exclusive buying under long term contracts in other jurisdictions, and the existence of such a regulation could prevent this problem from arising here.

## **CHAPTER 52. MISCELLANEOUS CONCLUSIONS**

### **(1) The Combines Act and Lessening Competition**

The "cartel" having been prohibited by Anti-Trust Laws and Combines Laws in various jurisdictions from using certain designated methods or practices of preventing or lessening competition found other equally effective methods or practices.

It appears to the Committee that to discourage or prevent private businessmen from becoming profitably established in the gasoline marketing business, and to lessen competition,

- (a) too many service stations are built so that none are economical, and
- (b) lessees of company owned stations are subsidized in rental which enables them to continue in business in circumstances which cause privately owned stations to fail.

The existence of too many uneconomic outlets is one way of discouraging private businessmen from entering marketing, which lessens competition with "cartel" outlets.

Selling gasoline at a lower price, having the effect or tendency of substantially lessening competition or eliminating a competitor is prohibited. However, instead of selling gasoline at a lower price, if an oil company gives its lessee outlets a rental subsidy per gallon which has exactly the same effect, it does not fall within the words of the prohibition in the Combines Act.

An agreement between oil companies which has lessened or is likely to lessen competition in any market would be illegal under The Combines Act. Lessening competition by this method having been prohibited, other methods to achieve the same result may not be prohibited. An agreement between an oil company and a service station operator tying the outlet is not prohibited. The system of tied outlets resulting from such agreements is likely to lessen competition and is likely to restrict persons from entering or expanding in the gasoline marketing business because each of the subsidiaries of the "cartel" companies has a chain of tied outlets to which it has the exclusive right to sell, and such outlets have no right to purchase from any other supplier.

If a surplus of uneconomic outlets already exists and if a new entrant can't sell to any existing outlet and so is faced with building additional uneconomic outlets to obtain a market that is likely to restrict him from entering or expanding in the gasoline marketing business, and lessens competition.

The effectiveness of the policies used by subsidiaries of the "cartel" companies are clearly demonstrated by the results in Alberta where—

- (a) privately owned service stations have declined in number;
- (b) independent wholesalers have declined in number;
- (c) independent refiners have been bought out or ceased to operate;
- (d) the "cartel" subsidiaries in Alberta operate 100% of the refining and have tied nearly 88% of all retail outlets in the Province.

Each company has a group of outlets to which it has the exclusive right to sell and to which no other company attempts to sell. This carves up the market just as effectively as the now illegal "cartel" marketing agreements, formerly used to do, and certainly lessens competition.

### **(2) Refinery Price Competition and Tied Outlets**

The present system of tied retail outlets in marketing makes it more difficult



for competition to develop at the refining level, which also lessens competition for "cartel" refineries.

If an independent oil company establishes a refinery, no matter what price inducements it may offer, it is unable to participate in the existing service station market because virtually all service stations are tied for a number of years to an existing brand and they are not at liberty to buy from anyone else. Consequently a refiner to have a market for the gasoline that it must inevitably produce has to establish a new chain of service stations in order to gain access to the market.

The new entrant is accordingly faced with the necessity not only of building a new refinery, but of building and financing a new chain of service stations, and then facing a lengthy period of loss in its service station operations until public acceptance of the new brand name is established.

So far as service stations are concerned there may already be too many of them. However, the new refiner can't do business with any of these service stations because they are tied. There is no object in the new refiner offering a lower price because the tied service stations are not free to respond to price competition. The new entrant accordingly spends whatever money is required to become established by building service stations which are unnecessary from a public standpoint, and uneconomic from the service station operator's standpoint.

If service stations were not tied, the new refiner would have the choice of offering lower prices to service station operators who could offer lower prices to the motorist to establish the new brand in the market. It would be easier for the new refiner, might cost him less, and the motorist consumer would benefit.

### **(3) Control of Retailing**

The man who is prepared to risk his savings and is not afraid of long hours and hard work to establish his own business and become an independent business man, normally has a competitive advantage over a business operated solely by employees whose prime motivation is reasonable payment for their time and labor.

An international oil company which desires to control retailing has to devise an efficient method of competition with such independent owners, that will discourage them from attempting to compete, and also will not involve too much expense to the oil company.

If the oil company can attract as lessees men who are prepared to risk their savings and are not afraid of long hours and hard work, they would then be competing in these respects on an equivalent basis with the independent owner. They can attract such men as lessees by the same inducements, namely—appearing to hold out opportunities of running one's own business and becoming an independent business man. At the same time by tying such a lessee with numerous restrictions and contract ties, they can exercise control over his activities equivalent to the control they would have over an employee who would not have the same interest or motivation.

The oil company, at the cost of a small subsidy to such lessees, can then provide services which an owner cannot match, and owners are gradually eliminated from retailing because their investment of capital, long hours, and hard work does not earn the advantages that would normally accrue.

These oil company practices create problems for all retailers, whether owners or lessees, and the advantages accrue to the oil companies.

The independent owner is driven out of his gasoline retailing business by unfair competition from subsidized lessees.

The lessee who risked his capital, and contributed long hours and hard work is restricted by contract ties which deprive him of the independence and freedom he had been hoping for, and he does not earn the rewards of an independent business man who can build up his investment and increase the value of his saleable equity in his business, giving him independence and security.

Among the advantages accruing to the oil companies are the following:

- (a) to the extent that operators invest capital to run service stations, oil companies are relieved of the necessity for providing such capital;
- (b) operators bear the losses of business failures in service stations and oil companies are relieved of the risk of failures in their retail outlets;

- (c) the operators assume the responsibility of administering oil company retail outlets and recruiting staff to retail oil company products; and
- (d) oil companies are relieved of the risks of unionization and resulting demands for higher wages and better working conditions which would arise if retail outlets were operated by oil company employees.

Some of the methods employed by oil companies, apparently with the objective of obtaining control of retailing, have infringed personal freedoms which people expect to enjoy. As a result the governments of some jurisdictions have taken steps to restrict the use of one or more of such methods which infringe these freedoms.

However, if one method is restricted, other methods can be devised. In an industry as complex as the international oil industry, the methods used to attain an objective are so complex and so numerous that the list of prohibitions and the problems of enforcement may be unacceptable from a practical political standpoint.

Rather than attempting to prohibit individual methods, we consider it is preferable for a government to state the freedoms which the public interest requires to be maintained for the benefit of certain classes of its citizens. If the freedoms are stated, the courts could then protect the citizens against the use of any methods or practices which infringe on those freedoms.

The nature of the international oil industry is such that it has many of the characteristics of an oligopoly or monopoly, and in such circumstances government intervention is necessary in a way that would not be appropriate for other businesses or industries which do not have such monopolistic characteristics. It is for this reason that governments exercise controls over utilities which enjoy franchises because the characteristics of such utilities differ from other industries which do not have such monopolistic characteristics.

The oil industry sells the majority of its gasoline to retailers. The industry's profits are largely dependent on the price at which it sells gasoline. If the industry controls retailers it can control the price at which its gasoline is sold to retailers.

All of the evidence is consistent with the theory that control of gasoline retailing is a prime objective of the "cartel".

The unfortunate "independent business man" engaged in retailing gasoline is caught between the hammer and the anvil in the application of policies to attain that objective of control.

Oil company policies leading to attainment of the objective of control of gasoline retailing have been the subject of government inquiries, investigations, and reports in many countries.

We are making recommendations which differ from those recommended and implemented in some other countries and jurisdictions because generally they appear to have failed to alter the conditions giving rise to the complaints.

#### **(4) The Retail Commission Agent**

The agent remunerated by commission who occupies premises as described in Chapter 11 (3), and who is used to compete at retail as described in Chapter 34 (2), usually:

- (a) occupies premises owned by his principal,
- (b) sells gasoline and merchandise produced or supplied to him by his principal,
- (c) sells at prices fixed by his principal,
- (d) conducts the business as directed by his principal.

For all practical purposes the business belongs to the principal and his agent follows instruction. The main difference is that instead of being paid a salary or wage as an employee he is remunerated by a commission based on sales.

From the point of view of the oil company which wishes to control retailing if they sell to an owner or a lessee who resells to the motorist

- (a) there is the disadvantage that the owner or lessee can determine his own mark-up and fix his own price,
- (b) there is the advantage that the company can obtain payment from the owner or lessee as purchaser whether or not he extends credit to or collects from his customers, so the owner or lessee runs the risk of credit



losses.

From the point of view of the oil company which wishes to control retailing, if they sell through an agent

- (a) there is the advantage that the company can determine retail mark-up and fix retail prices,
- (b) there is the disadvantage that the company as principal extends credit to its customers and suffers credit losses, and their agent, (who is not a purchaser like the owner or lessee,) would normally have no responsibility to pay the company amounts which its customers failed to pay.

To have the best of all worlds, an oil company commission agent contract has been devised under which

- (a) the form of the contract appears to be agency so that the oil company has the advantage of determining retail mark-up and fixing prices,
- (b) the "agent" is remunerated by commission so that the oil company has the advantage of not being an employer whose employees can bargain collectively or take advantage of labor laws which protect "employees",
- (c) unusual terms have been added to the agency form of contract which have the effect for purposes of credit losses of treating the agent as a buyer and shifting the responsibility for credit losses from the oil company to the agent,
- (d) additional terms have been added to the agency form of contract which require the agent to pay an occupancy charge for using his principal's premises corresponding to the rent payable by a lessee but without the disadvantage to the oil company of giving him the rights and status that a tenant normally enjoys under a lease.

If the discrimination against owners inherent in a rental subsidy to lessees is difficult to demonstrate, comparison with an occupancy charge to an agent would be still more obscure although equally relevant.

The commission agent operator can be exploited to the same extent, if not more so, than the lessee operator unless each is afforded comparable protection.

An oil company agent who sells his oil company's products at prices fixed by his oil company and in accordance with his oil company's instructions should not be required or permitted to assume any liability for credit losses on such sales. The provisions of any contract to this effect should be declared null, void and unenforceable.

Oil company retail commission agents are under the direction and control of their oil company principal, and either they should be deemed to be employees within the meaning of the Alberta Labor Act and subject to legislation regarding minimum wages, hours of work, and right to bargain collectively, or they should be given independence.

Either no occupancy charge should be paid by an oil company retail commission agent for oil company premises and the provisions of any contract imposing such a charge should be declared null, void and unenforceable, or he should be given the security of tenure recommended for a lessee. The termination of the man's appointment as agent automatically terminates his right to use the premises. The commission is simply a sales incentive to the agent and a measure of his earnings. The agent's commission should correspond to a lessee's net earnings, and not to his gross earnings from which deductions for expenses are made as though he had independence from his principal.

No capital investment should be made by or required from any retail commission agent for gas, merchandise, tools, equipment or stock. A man who is an employee or agent and whose remuneration is salary or commission should not be required to buy merchandise or to risk his capital to earn that salary or commission, and the provisions of any contract requiring an employee or agent to invest his capital should be declared null, void and unenforceable.

The clear lines that one assumes to exist between an employee or agent on the one hand, and an independent business man on the other, have been blurred by clever draftsmanship of oil company contracts, which confer on one category the characteristics and obligations of another.

The distinctions in principle which formerly existed should be restored so that a man who for most practical purposes is an employee (in fact although not in name or form of contract) should be protected by the laws for the protection of employees and should not be saddled with the obligations of an independent business man.

On the other hand, the independent business man who assumes the obligations of investing capital in a business and buying merchandise for resale in the hope of profit should be free of the ties that normally apply to an employee or commission agent. The oil company that is being paid as the supplier of product and as the landlord of premises should have no voice in the conduct of the retailer's business.

**(5) Miscellaneous Statistics**

**NUMBER OF PASSENGER CARS PER RETAIL OUTLET  
BY CENSUS DIVISION — Alberta 1965**

Census Division	Number of Retail Outlets	Number of Cars	Passenger Cars Per Retail Outlet
01	98	11,541	118
02	184	23,540	128
03	100	7,217	72
04	64	3,377	53
05	143	9,720	68
06	509	121,687	238
07	151	10,939	72
08	221	24,050	109
09	65	5,259	81
10	253	18,716	74
11	586	142,948	242
12	124	9,735	79
13	180	9,597	53
14	68	4,542	67
15	239	16,397	69
	<hr/> 2,985	<hr/> 419,265	<hr/> 140

The cars per retail outlet are significantly higher in the Calgary area (06) and the Edmonton area (11).

Source: Gasoline Marketing Enquiry Records.

**AVERAGE GALLONAGE SOLD BY ALL RETAIL OUTLETS  
BY CENSUS DIVISION — Alberta 1965**

Census Division	Number of Retail Outlets	Gallons Sold	Average Gallons Per Outlet
01	98	7,168,085	73,144
02	184	13,705,698	74,487
03	100	4,478,514	44,785
04	64	2,595,636	40,557
05	143	5,129,726	35,872
06	509	65,485,124	128,654
07	151	5,691,431	37,692
08	221	14,307,402	64,739
09	65	7,537,546	115,962
10	253	10,457,068	41,332
11	586	73,434,059	125,314
12	124	4,750,259	38,309
13	180	5,149,108	28,606
14	68	5,494,843	80,807
15	239	15,447,003	64,632
	<hr/> 2,985	<hr/> 240,831,502	<hr/> 80,681

The gallonage is greater where the cars per retail outlet are greater, i.e. the Calgary area (06) and the Edmonton area (11).

In the national parks (09) where outlets are restricted the gallonage approaches that of outlets in Calgary and Edmonton.

Source: Gasoline Marketing Enquiry Records.



**NUMBER OF OUTLETS BY CENSUS DIVISION**  
**Alberta 1965**

Census Division	Owned	Leased	Total
01	56	42	98
02	106	78	184
03	68	32	100
04	60	4	64
05	111	32	143
06	181	328	509
07	126	25	151
08	151	70	221
09	39	26	65
10	197	56	253
11	257	329	586
12	113	11	124
13	169	11	180
14	49	19	68
15	180	59	239
Total	1,863	1,122	2,985

Although there were 3,139 retail outlets in Alberta in 1965 only 2,985 were allocated above. The remaining 154 not accounted for include 83 off brand stations and 71 outlets of integrated oil companies.

Source: Gasoline Marketing Enquiry Records.

**TOTAL RETAIL GALLONAGE BY CENSUS DIVISION**  
**Alberta 1965**

Census Division	Owned	Leased	Total
01	2,336,217	4,831,868	7,168,085
02	4,395,658	9,310,040	13,705,698
03	2,405,819	2,072,695	4,478,514
04	1,901,209	694,427	2,595,636
05	2,854,603	2,275,123	5,129,726
06	12,818,687	52,666,437	65,485,124
07	4,018,718	1,672,713	5,691,431
08	6,614,372	7,693,030	14,307,402
09	3,314,356	4,223,190	7,537,546
10	5,913,122	4,543,946	10,457,068
11	19,777,710	53,656,349	73,434,059
12	3,863,900	886,359	4,750,259
13	4,333,860	815,248	5,149,108
14	2,604,901	2,889,942	5,494,843
15	8,210,624	7,236,379	15,447,003
Total	85,363,756	155,467,746	240,831,502

Does not include the gallonage from 83 off brand outlets or from 71 outlets of integrated oil companies.

Source: Gasoline Marketing Enquiry Records.

**AVERAGE GALLONAGE SOLD BY LEASED RETAIL OUTLETS  
BY CENSUS DIVISION  
Alberta 1965**

<b>Census Division</b>	<b>Number of Leased Retail Outlets</b>	<b>Gallonge Sold</b>	<b>Average Gallonge Per Outlet</b>
01	42	4,831,868	115,044
02	78	9,310,040	119,359
03	32	2,072,695	64,772
04	4	694,427	173,607
05	32	2,275,123	71,098
06	328	52,666,437	160,568
07	25	1,672,713	66,909
08	70	7,693,030	109,900
09	26	4,223,190	162,430
10	56	4,543,946	81,142
11	329	53,656,349	163,089
12	11	886,359	80,578
13	11	815,248	74,113
14	19	2,889,942	152,102
15	59	7,236,379	122,650
	<hr/> 1,122	<hr/> 155,467,746	<hr/> 138,563

Source: Gasoline Marketing Enquiry Records.

**AVERAGE GALLONAGE SOLD BY OWNED RETAIL OUTLETS  
BY CENSUS DIVISION  
Alberta 1965**

<b>Census Division</b>	<b>Number of Owned Retail Outlets</b>	<b>Gallonge Sold</b>	<b>Average Gallonge Per Outlet</b>
01	56	2,336,217	41,718
02	106	4,395,658	41,468
03	68	2,405,819	35,380
04	60	1,901,209	31,687
05	111	2,854,603	25,717
06	181	12,818,687	70,821
07	126	4,018,718	31,895
08	151	6,614,372	43,804
09	39	3,314,356	84,983
10	197	5,913,122	30,016
11	257	19,777,710	76,956
12	113	3,863,900	34,194
13	169	4,333,860	25,644
14	49	2,604,901	53,161
15	180	8,210,624	45,615
	<hr/> 1,863	<hr/> 85,363,756	<hr/> 45,821

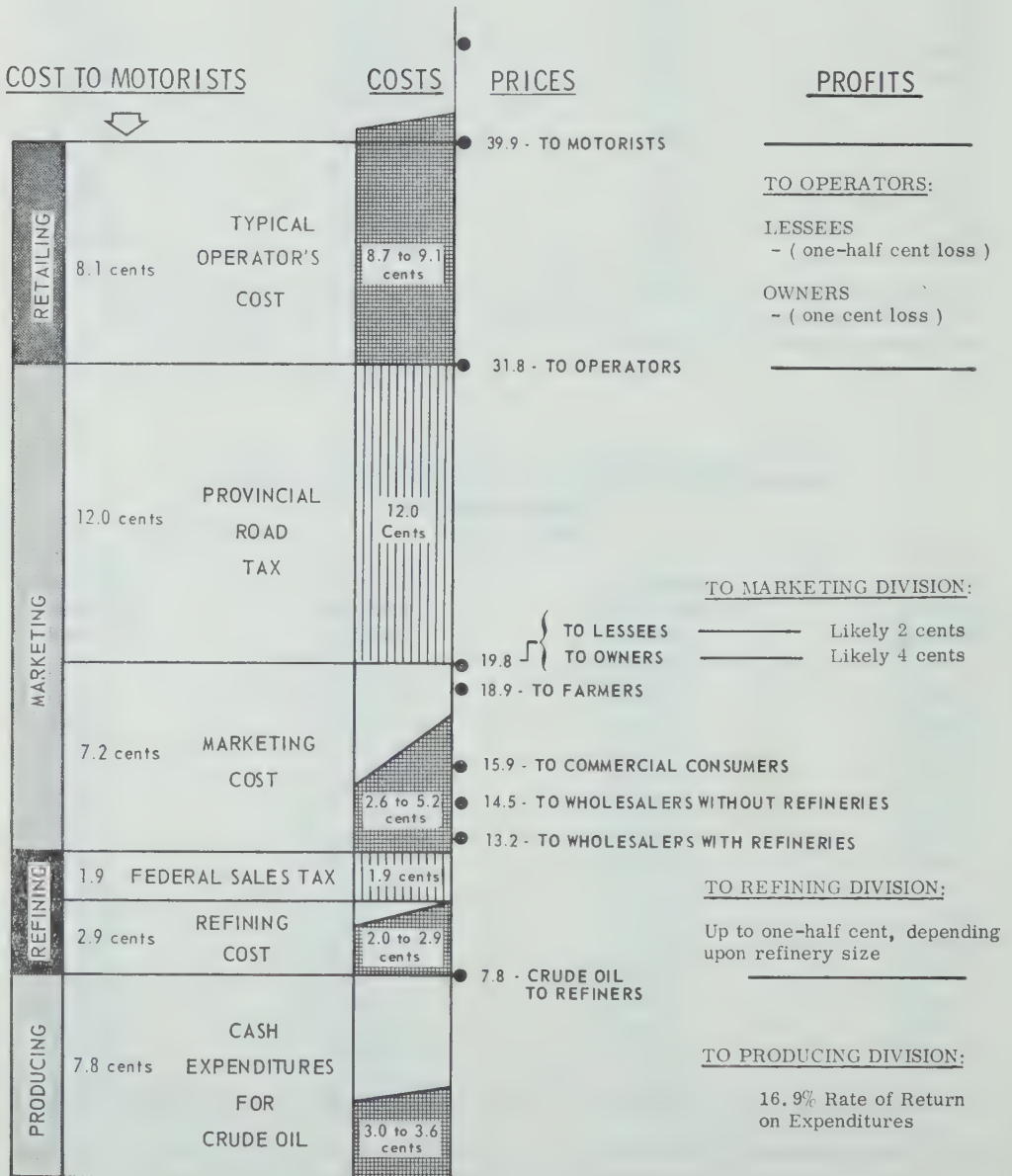
Source: Gasoline Marketing Enquiry Records.

**COST OF A GALLON OF GASOLINE**

(cents per gallon in Calgary or Edmonton)

**1965**

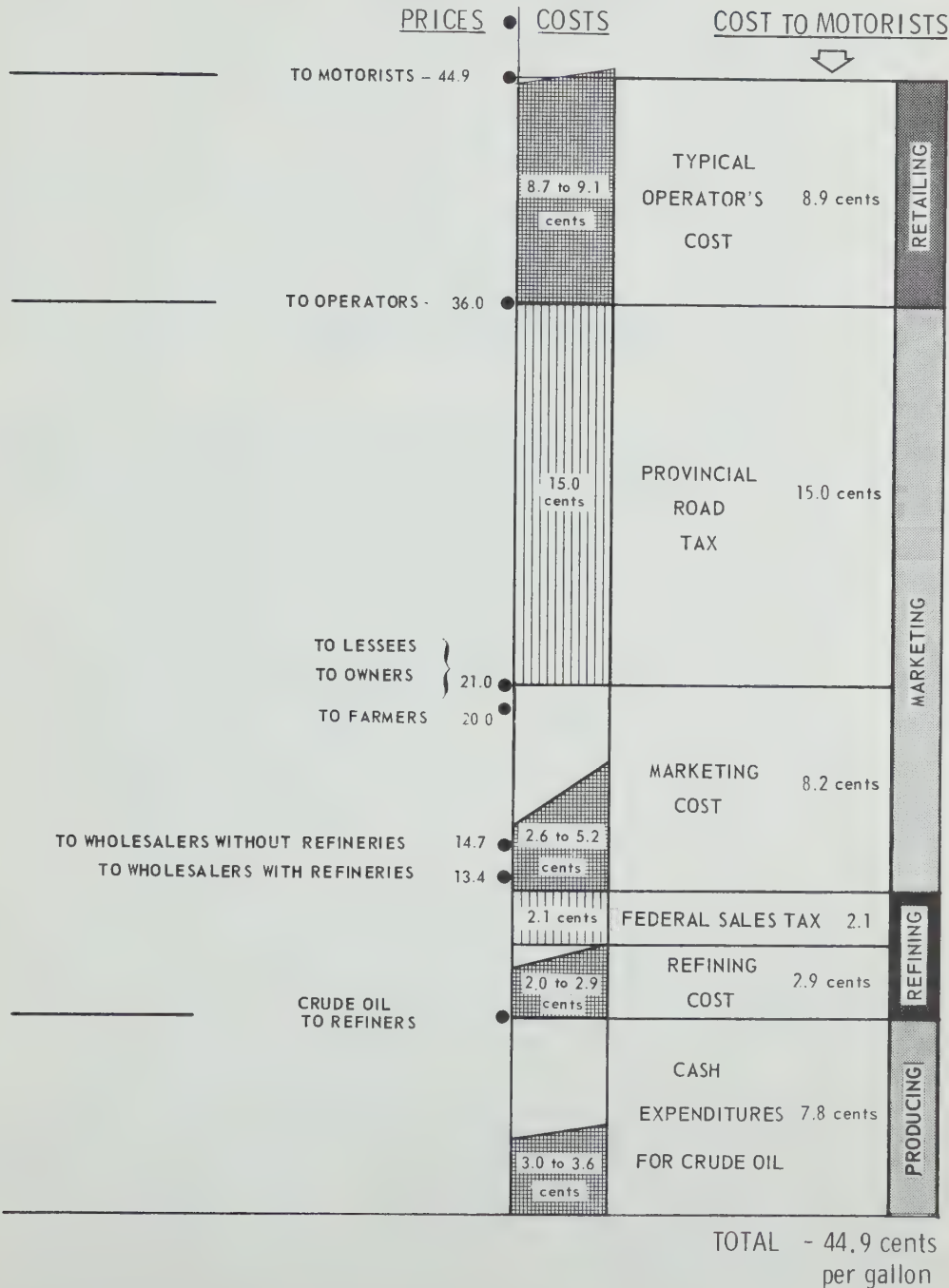
(REGULAR GASOLINE)



39.9 cents - TOTAL  
per gallon

**COST OF A GALLON OF GASOLINE**  
**(cents per gallon in Calgary or Edmonton)**  
**1968**

(REGULAR GASOLINE)







**PART 14**  
**CONDUCT OF ENQUIRY**

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Approved and Ordered,

(signed) J. PERCY PAGE

LIEUTENANT GOVERNOR

Edmonton, Tuesday, May 25th, 1965

The Executive Council has had under consideration the report of the Honourable the Minister of Industry and Development, dated May 18th, 1965, stating that:

WHEREAS it is expedient to investigate the area of gasoline marketing in Alberta and in accordance with section 7 of The Industry and Development Department Act, being chapter 30 of the Statutes of Alberta, 1958, and amendments thereto, by the establishment of a Gasoline Marketing Enquiry Committee:

THEREFORE, upon the recommendation of the Honourable the Minister of Industry and Development, the Executive Council advises that a GASOLINE MARKETING ENQUIRY COMMITTEE be and is hereby established with KENNETH A. MCKENZIE, Q.C., of Edmonton as Chairman, ALLEN N. ROSE of Calgary and ARTHUR FITZPATRICK of Edmonton as Members, who are hereby empowered:

- (a) To enquire into the marketing of gasoline and petroleum products in Alberta; and
- (b) To consider the relationships between oil companies and service station operators; and all practices affecting or related to the marketing of gasoline and petroleum products; and
- (c) To consider any other matter which in the opinion of the committee affects the marketing of petroleum products in Alberta; and
- (d) To report its findings and recommendations to the Minister of Industry and Development.

The Executive Council further advises, upon the recommendation of the Honourable the Minister of Industry and Development, that the chairman and members shall be granted travel expenses and subsistence in accordance with section 3, subsection (2) (a) of the Regulations Governing the Payment of Subsistence and Travelling Allowances, same to be charged to Appropriation 2708, Treasury Department.

(signed) ERNEST C. MANNING

CHAIRMAN

## PART 14

### CONDUCT OF ENQUIRY

#### Chapter 53. PROCEEDINGS OF GASOLINE MARKETING ENQUIRY COMMITTEE

##### (1) Commencement of Study

Upon the appointment of the Committee, we decided to obtain as much benefit as we could from studies and enquiries into this subject which had been conducted by others.

The Royal Commission on Gasoline Price Structure in British Columbia was in the final stages of its hearings. We accordingly travelled to British Columbia for the final sittings of the Commission and listened to counsel for the various parties sum up their respective arguments.

After the conclusion of the formal hearings we arranged private meetings with some of the expert advisers who had worked with the B.C. Royal Commission during the three years of its investigations. We obtained very helpful advice relating to the oil industry and the problems we would encounter from Professor A. Milton Moore of the Department of Economics, University of British Columbia who was Staff Economist for the Commission, from Dr. John H. Young, head of the Department of Economics, University of B.C. who was retained by the Commission to carry out a survey of retail service stations, from Dr. Ronald Shearer, Assistant Professor, Department of Economics, University of B.C. who was engaged by the Commission as an independent economist to examine the economic theory outlined in the briefs and the evidence, and Mr. Trevor Williams, C.A. partner of Peat, Marwick, Mitchell & Co., who had been retained to assist the Commission in relation to the accounting and financial aspects of the enquiry.

We obtained copies of many of the briefs, submissions, exhibits and arguments which the Royal Commission had accumulated and a study of this material provided us with useful background information.

The Committee did an extensive literature search which turned up a variety of publications relating to numerous aspects of the marketing of petroleum products. Among the most comprehensive reports which we read from Canada, the U.S. and Britain respectively were the following:

- (1) The Restrictive Trade Practices Commission Report on an Enquiry into the Distribution and Sale of Automotive Oils, Greases, Anti-freeze, Additives, Tires, Batteries, Accessories, and Related Products under the Combines Investigation Act to the Department of Justice in Ottawa which was published in 1962. This was a thorough investigation conducted over a seven year period and the report was 133 pages in length supported by an Appendix of 528 additional pages.
- (2) A Report to the Federal Trade Commission by its Staff On The International Petroleum Cartel. This report based on a three year study was 378 pages in length and was submitted to the Subcommittee on Monopoly of the United States Senate in 1952.
- (3) The Monopolies Commission presented a report based on a five year study, to Parliament in the United Kingdom entitled "Petrol A Report on the Supply of Petrol to Retailers in the United Kingdom". This report was prepared pursuant to the Monopolies and Restrictive Practices (Enquiry and Control) Act 1948 and was a very comprehensive study of gasoline marketing in Great Britain.

With some background of the problems of marketing gasoline in other jurisdictions, the Committee then commenced to enquire into the marketing of gasoline and petroleum products in Alberta.

##### (2) Information from Service Station Operators

The Committee considered its first step should be to learn about the operations, the economics, and the problems of service stations. Accordingly each member of the Committee individually interviewed a number of service station operators. Once each operator became aware that we had a genuine interest in



learning about his business and understanding his problems, we received the utmost cooperation. Books, accounts, invoices, and contracts were all made available to us without the slightest reservation.

Dr. John H. Young, head of the Department of Economics at the University of B.C. had been retained by the B.C. Commission to carry out a survey of retail service stations in his province. Wishing to benefit from his recent experience, before we got too deeply involved in our own study, we interviewed Dr. Young at length. The Committee accompanied Dr. Young to a sample area in North Vancouver which he had personally studied in considerable detail. We inspected every service station located in that sample area and Dr. Young outlined his conclusions and the important problems as he saw them. He stressed the importance of having thorough and accurate information and that a large number of stations should be selected as a sample.

As a result of our own interviews with service station operators and from the information provided by Dr. Young we were aware of a large number of problems, each experienced by some service station operators. In order to determine the relative importance of these problems, and how commonly they occur we accordingly needed information from a large number of gasoline retailers.

We spent considerable time in the preparation of a detailed service station questionnaire. Part I of the questionnaire contained 94 questions relating to various aspects of the service station business and Part II of the questionnaire required financial information such as payroll records, particulars of the costs and expenses of various kinds of products, and balance sheet information. We recruited and trained a number of competent interviewers whose job was to interview service station operators and to get each questionnaire completed as far as reasonably possible. On the average each interview took approximately one full day, including call backs to obtain financial information and balance sheets, which were not always immediately available. The questions included in the questionnaire are shown in Table 172.

There were approximately 3,100 retail gasoline outlets in the province and we decided that between 500 and 600 interviews should provide a representative sample from which reliable conclusions could be drawn.

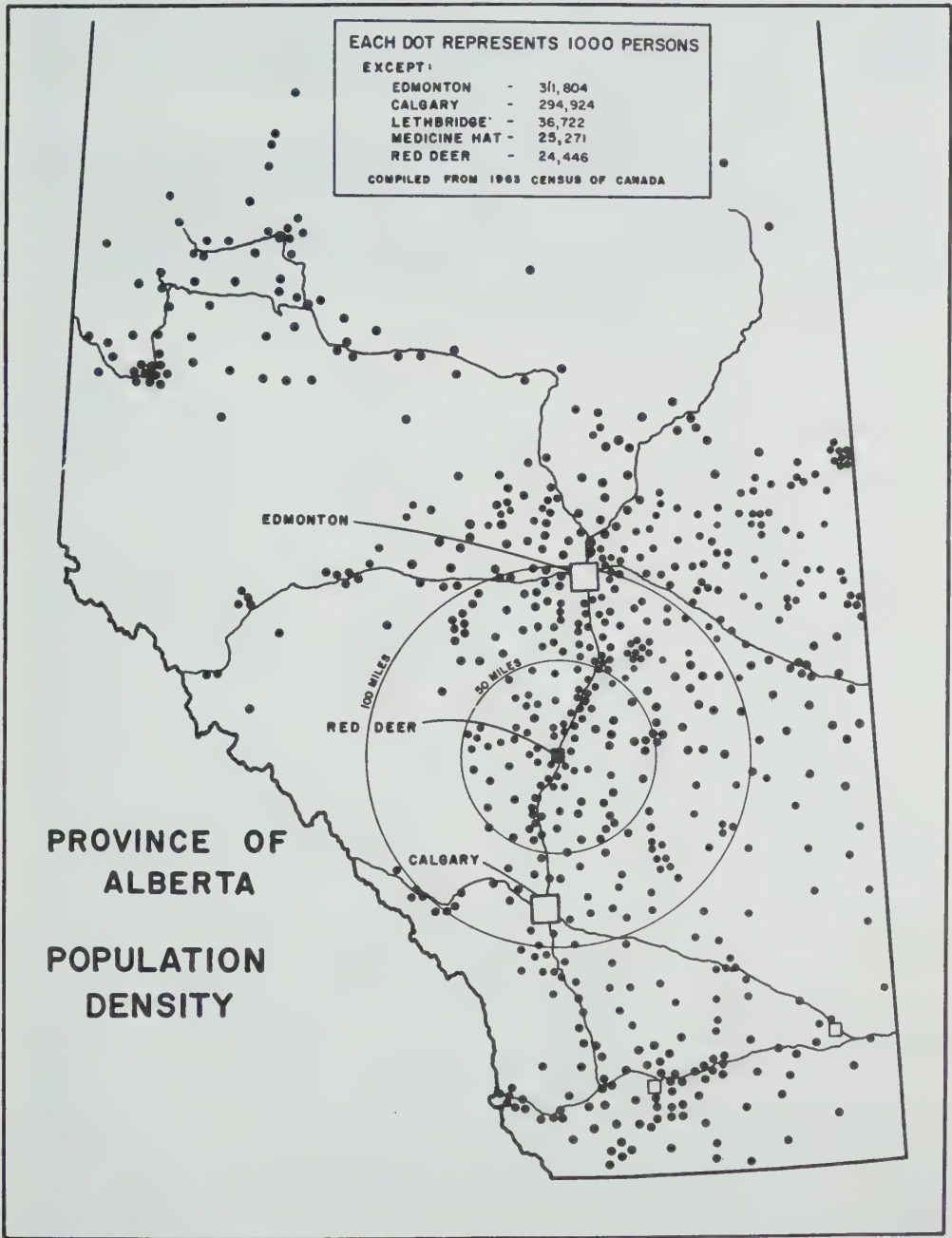
Service stations are located where the people are, so we were guided in our selection of sample areas by the population density of the province of Alberta which is shown on Chart 150.

At the same time we considered that if we were to obtain a true picture of conditions within a community which constituted a competitive area, we should interview every gasoline outlet in that particular community wherever possible. This was possible and practical in all the towns and villages. Instead of interviewing one station in each of five towns we decided to interview all the stations in one town. As long as we had enough towns or villages in each geographic or economic area of the province we considered this procedure would produce better information.

In larger cities it was necessary to select a sample. However, from discussions with service station operators and with oil company marketing executives, it became apparent that a competitive area within a city can be defined with reasonable clarity.

Service stations in a city are usually located along main arteries which are "the road to work" for large numbers of residents, or along main arteries which are "the principal access routes" to the city. A motorist leaves his home and gets onto the main artery which is his "road to work" and passes several stations along that artery which it would be convenient for him to use. These stations regard one another as their competitors and they lie within competitive areas which can be reasonably defined. For instance, in Edmonton 109th Street extending south from the High Level Bridge to the Martin Estate is such a competitive area. If you draw an elliptical line around that main artery to include those few service stations which are on tributary roads leading from residential developments to the main artery you have roughly outlined a competitive area.

CHART 150



We outlined several such sample areas in the cities of Edmonton, Calgary, Red Deer, Lethbridge, Medicine Hat, etc., and interviewed 100% of the service stations within each such sample competitive area. We are satisfied that conditions in these sample areas are representative of the city as a whole.

In order to interview a representative sample of the various categories of service stations in the cities, in large and small towns, on highways and in various areas of the province, 68 sample market areas were selected throughout the province. On the advice of oil company marketing specialists, each sample contained 100% of the stations in the particular market area. Table 171 indicates the communities in which service stations were surveyed and the number of stations surveyed in each community. The geographical distribution of the locations involved is illustrated in Chart 151.

It was obvious that highway service stations have characteristics which differ somewhat from urban service stations, in that they sell larger volumes of gasoline and generally place less emphasis on sales of merchandise or repair. Chart 152 is a traffic flow map on which the width of the highway is in proportion to the average daily traffic. From this we selected a length of highway from each of five different highways. On each such length of highway we interviewed ten different service stations for our highway sample.

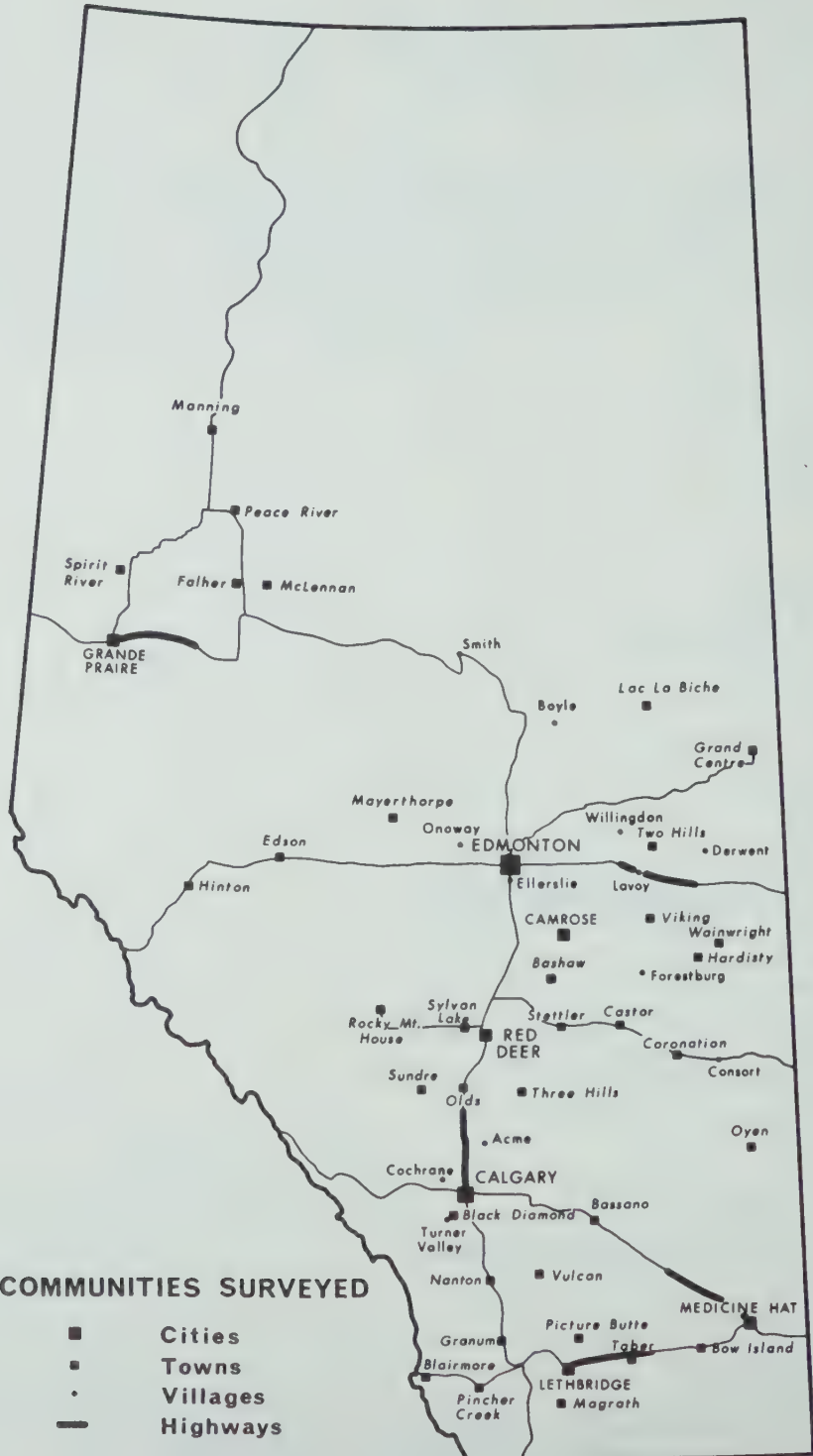
Table 171

## COMMUNITIES IN WHICH SERVICE STATIONS WERE SURVEYED

Cities	No. of Sample Areas	No. Surveyed
Calgary .....	6	83
Camrose .....	1	9
Edmonton .....	5	82
Grande Prairie .....	1	15
Lethbridge .....	1	28
Medicine Hat .....	1	20
Red Deer .....	1	20
Total Number of Retail Outlets Surveyed .....		257
Towns		No. Surveyed
Bassano .....		4
Black Diamond .....		3
Blairmore area .....		14
Bow Island .....		7
Castor .....		7
Coronation .....		6
Edson .....		16
Falher .....		4
Grand Centre .....		8
Granum .....		3
Hardisty .....		3
Hinton .....		9
Lac La Biche .....		5
Magrath .....		5
Manning .....		5
Mayerthorpe .....		4
McLennan .....		2
Nanton .....		8
Olds .....		5
Oyen .....		4
Peace River .....		11
Picture Butte .....		4
Pincher Creek .....		9
Rocky Mountain House .....		11
Spirit River .....		3
Stettler .....		16
Sundre .....		5
Sylvan Lake .....		8
Taber .....		7
Three Hills .....		5
Two Hills .....		6
Viking .....		6
Vulcan .....		5
Wainwright .....		12
Total Number of Retail Outlets Surveyed .....		230
Villages		No. Surveyed
Acme .....		1
Bashaw .....		7
Boyle .....		2
Cochrane .....		3
Consort .....		5
Derwent .....		3
Ellerslie .....		1
Forestburg .....		6
Lavoy .....		2
Onoway .....		4
Smith .....		2
Turner Valley .....		2
Willingdon .....		5
Total Number of Retail Outlets Surveyed .....		43
Highways		No. Surveyed
Highway No. 1 .....		8
Highway No. 2 .....		10
Highway No. 3 .....		4
Highway No. 16 .....		10
Highway No. 34 .....		10
Total Number of Retail Outlets Surveyed .....		42
GRAND TOTAL NUMBER OF RETAIL OUTLETS SURVEYED .....		572



# COMMUNITIES IN WHICH SERVICE STATIONS WERE SURVEYED



The highway samples are indicated by the heavy black lines on Chart 151 showing communities in which service stations were surveyed.

The Committee is satisfied that the sample of gasoline retail outlets surveyed is reasonably representative of all geographic, economic and political divisions of the province and is representative of the various classifications of retail gasoline outlets throughout the province.

CHART 152  
TRAFFIC FLOW MAP

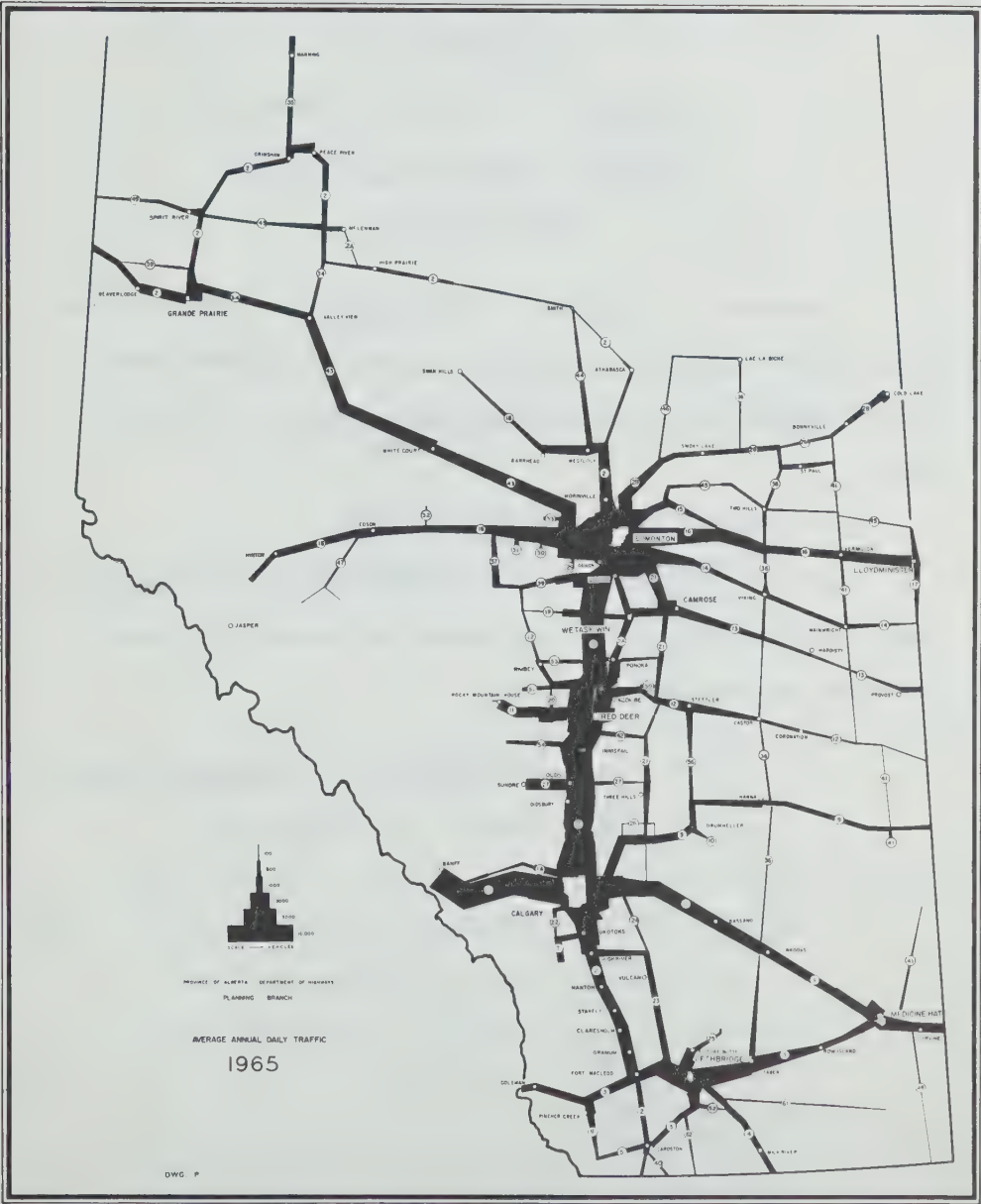


TABLE 172

Province of Alberta

GASOLINE MARKETING ENQUIRY

STRICTLY CONFIDENTIAL INFORMATION

From Service Stations

The purpose of this interview is to obtain factual information about service station operations, and to determine the nature and extent of any problems which may exist in the marketing of gasoline and related products and services to the motoring public.

All information you give is strictly confidential.

A summary of information from these questionnaires may be included in the report of our enquiry to the Government of Alberta, but the report will in no way identify any individual operator or station.

Kenneth A. McKenzie, Q.C., Edmonton - Chairman

Arthur Fitzpatrick, P.Eng., Edmonton

Allan N. Rose, Calgary

## PART 1

### INTRODUCTORY QUESTIONS

1. Name of Station  
  
Address
2. Brand of gasoline sold

### PERSONAL PARTICULARS AND OPINIONS

3. Name of person interviewed
  4. Position of person interviewed: Owner ☐  
Lessee ☐  
Manager ☐  
Other ☐
  5. How long have you been in charge of this station? (years)
  6. What did you do previously?  
Occupation Firm Years
  7. Why did you decide to (buy, lease, manager) this particular station?
  8. What information did you have about this station before you decided to (buy, lease, manage)?
  9. How accurate did this information prove to be?
  10. How much education and training do you have:  
Academic  
Trade  
Technical  
Other
  11. Would you recommend that most service station operators go through a formal training program?  
Yes ☐  
No ☐  
Not sure ☐
- 

- If yes
12. What would be the subjects covered in such a program?
  13. Where would such a program be offered?
  14. When would the courses be given?  
Days ☐  
Evenings ☐  
Extension ☐  
Other ☐
  15. How long should the courses be?
  16. Who should be the instructors?



17. Would you take such a series of courses?

- Yes ☐  
No ☐  
Not sure ☐  
Other ☐
- 

18. Do you intend to make the service station business your lifelong career?

- Yes ☐ No ☐

Give reasons

19. Do you intend to stay in this particular service station?

- Yes ☐ No ☐

Give reasons

20. If you were to leave the service station business, what sort of work would you do?

21. How would your total take-home pay compare if you made such a change?

- More ☐  
Less ☐  
The same ☐

22. Are you a member of the Automotive Retailers Association?

- Yes ☐ No ☐

23. Besides this station are you in any other business ventures?

- Yes ☐ No ☐
- 

If yes

Specify:

24. What percentage of your income comes from the service station business?

---

25. Hours of work by owner or lessee:

(a) On the average, how many hours a week have you worked at your business during the year 1965?

(b) Has this total increased or decreased in the last 5 years?

(c) Does your wife work full or part-time on your business?

- Yes ☐ No ☐

(d) If yes, how many hours a week?

26. How station is held:

- (a) leased from oil company ☐  
(b) owned by operator ☐  
(c) leased from other than oil company (specify) ☐  
(d) owned by oil company and operated by employee ☐  
(e) other (specify) ☐

27. Primary category of outlet:

	(a) ordinary service station	OR	<input type="checkbox"/>
special category, such as	(b) highway service station		<input type="checkbox"/>
	(c) shopping center service station, operated by major retailer		<input type="checkbox"/>
	(d) car wash service station		<input type="checkbox"/>
	(e) parking structure service station		<input type="checkbox"/>
	(f) car dealer with gasoline pumps		<input type="checkbox"/>
	(g) garage with gasoline pumps		<input type="checkbox"/>
	(h) coffee shop, store or other business with gasoline pumps (specify)		<input type="checkbox"/>
	(i) bulk dealership		<input type="checkbox"/>
	(j) other (specify)		<input type="checkbox"/>

28. Description of station:
- lot size
  - building size
  - number of islands
  - number of hoses
  - number of bays

29. Sketch showing service station and property layout.

30. Sketch showing immediately adjacent area and businesses.

31. Sketch showing station location in relation to competitive stations and major arteries.

31(a). What percentages of your gasoline business comes from:

- (a) people living in the adjacent residential area.
- (b) people shopping or working in the adjacent commercial, business or industrial area.
- (c) passing traffic on city or highway artery.
- (d) other.

32. What was your annual gallonage in each of the following years:

1965  
1964  
1963  
1962  
1961

33. How many gallons did you sell at this station:

- (a) in your best month
- (b) in your worst month

34. What are your hours of operation:

Weekdays (a) a.m. to p.m.  
Sunday (b) a.m. to p.m.  
OR (c) 24 hours every day ☐

35. What are your busy and slack periods during the day?

36. What percentage of daily gallonage is pumped during your busy period?

37. Could your station handle more customers during the periods of each day that you classify as busy periods?

Yes ☐ No ☐

38. Do you lose substantial gallonage at any time of the day because customers have to wait? Yes ☐ No ☐
39. What was the average daily gallonage you sold last year?  

$$\frac{\text{1965 gallonage}}{\text{number of days open}} =$$
40. What was the maximum number of gallons you have ever sold on one day?
41. What special working arrangements (if any) were made that day to handle this maximum volume?
42. Do you have a day when you are open and some or all of your competitors are closed (e.g. Sunday rotation)?  
 Yes ☐ No ☐
- (a) If yes - what is maximum gallonage you have sold on such a day?  
 (b) If no - what gallonage do you estimate you could sell on such a day?
43. If some competitors in your area were closed making more customers with the same buying habits available to your station, estimate the maximum gallonage per day your station could handle without reducing the existing quality of service to customers.
- (a) with no changes in staff, hours worked, hours open, or physical facilities.  
 (b) by increasing staff, adding pumps, and improving facilities and service to such extent as is reasonably possible having regard to all circumstances including the laws of your locality.
44. On the average, how many customers per day do you serve with gasoline?
45. What is the average number of gallons that each customer purchases?
46. Estimate the maximum number of customers you could handle with no changes in staff, hours worked, hours open, or physical facilities.
47. With how many stations are you in direct competition?
48. Could fewer stations handle the gas and services required by the public in the area in which you compete?  
 Yes ☐ No ☐

---

If yes

49. Estimate how many of these stations could close without reducing the quality of service available to individual customers.
- 

50. For what percentage of your customers do you provide the following free services? (Percentage applies to total number of individual gasoline purchases.)

Windshield wiping	%
Water, battery and oil checks	%
Check tires	%
Other	%

51. If you didn't perform these free services by how much could you reduce your labour requirement?

QUESTIONS APPLICABLE TO STATION LEASED  
FROM OIL COMPANY (OR FROM OTHER LANDLORD)

52. Estimate market value of landlord's fixed assets:  
     Value of land  
     Value of buildings  
     Other assets leased from landlord

Total fixed assets:

53. What is your rental rate:   fixed monthly rent  
   Gallonage rent, cents per gallon

54. What was your average monthly rent paid in 1965?

55. Is your lease: (a) month to month   ☐  
                           (b) year to year       ☐  
                           (c) longer (specify)   ☐

56. At what notice can your lease be terminated:

	<u>By oil company or landlord</u>	<u>By you</u>
(a) 24 hours	<input type="checkbox"/>	<input type="checkbox"/>
(b) 7 days	<input type="checkbox"/>	<input type="checkbox"/>
(c) 10 days	<input type="checkbox"/>	<input type="checkbox"/>
(d) 15 days	<input type="checkbox"/>	<input type="checkbox"/>
(e) 30 days	<input type="checkbox"/>	<input type="checkbox"/>
(f) other (specify)	<input type="checkbox"/>	<input type="checkbox"/>

57. Do you have a dealership agreement with your oil company providing for the purchase of its petroleum products?

Yes ☐                      No ☐

- If yes      58. Would a violation of your dealership agreement be a violation of your lease entitling the oil company to terminate your lease?

Yes ☐                      No ☐

59. Has your rent changed since you became the operator of this station

Yes ☐                      No ☐

- If yes      60. How many times has your rent changed?

61. Did rent changes occur:           (a) on expiration of lease   ☐  
   (b) during term of lease     ☐

62. Give particulars of all rent changes:

Date	Monthly Rent	Cents per Gallon	Average monthly Gallonage at time of rent change	Reasons given for requesting change
------	--------------	---------------------	--	---

QUESTIONS APPLICABLE TO STATION  
OWNED BY OPERATOR

63. Do you sell gasoline under your oil company's brand name?

Yes ☐                      No ☐



64. Does your oil company provide your customers with credit card facilities?  
Yes ☐ No ☐
65. Has your oil company extended credit to you to enable the purchase of:  
Yes No  
(a) gas ☐ ☐  
(b) T.B.A. ☐ ☐  
(c) other (specify) ☐ ☐
66. Have you borrowed money from the oil company that supplies your gasoline?  
Yes ☐ No ☐
67. Has your oil company assisted you to purchase equipment?  
Yes ☐ No ☐
68. Was any of the credit extended to you by your oil company secured by:  
Yes No  
(a) a land mortgage ☐ ☐  
(b) a chattel mortgage ☐ ☐  
(c) an undertaking from you to ☐ ☐  
buy one or more products  
of the oil company  
(d) any other undertaking ☐ ☐  
(specify)
69. Have you agreed to buy from your oil company any of the following products until your indebtedness is repaid?  
Yes No  
(a) gas ☐ ☐  
(b) T.B.A. ☐ ☐  
(c) other (specify) ☐ ☐
70. Have you the right to prepay the indebtedness in full whenever you wish?  
Yes ☐ No ☐
71. Do you require the consent of the oil company to sell your station?  
Yes ☐ No ☐
72. Do you have a dealership agreement with your oil company which restricts or limits any products you may buy or sell or which requires you to buy such products from your oil company?  
Yes ☐ No ☐

If yes, specify restrictions or limitations.

73. At what notice can your dealership agreement be cancelled?  
By Company By You
74. Has your oil company ever suggested it was considering or would consider termination of your dealership agreement?  
Yes ☐ No ☐

If yes, give particulars.

## GENERAL QUESTIONS RESPECTING OIL COMPANY CONTROL

75. Has your oil company ever asked your station to change its open hours?
- |          |                          |                          |
|----------|--------------------------|--------------------------|
|          | Yes                      | No                       |
| Increase | <input type="checkbox"/> | <input type="checkbox"/> |
| Decrease | <input type="checkbox"/> | <input type="checkbox"/> |
76. Have you been asked to provide financial statements to your oil company?
- |         |                              |                             |
|---------|------------------------------|-----------------------------|
|         | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
| Do you? | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
77. Are you on commission consignment?
- |  |                              |                             |
|--|------------------------------|-----------------------------|
|  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
|--|------------------------------|-----------------------------|
78. Were you on commission consignment?
- |  |                              |                             |
|--|------------------------------|-----------------------------|
|  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
|--|------------------------------|-----------------------------|
79. Do you have any objections to the commission consignment arrangement?
- |  |                              |                             |
|--|------------------------------|-----------------------------|
|  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
|--|------------------------------|-----------------------------|
- If yes, specify.
80. What free painting, advertising, training, etc., have been provided by the supplier company in the last 5 years?
81. Do you contribute toward the cost of advertising your oil company's products?
- |  |                              |                             |
|--|------------------------------|-----------------------------|
|  | Yes <input type="checkbox"/> | No <input type="checkbox"/> |
|--|------------------------------|-----------------------------|

If yes, give particulars.

82. Gas pricing:      Now      October 1965      May 1965

	Retail		
(a) Premium,	Purchase		
	Margin		
<hr/>			
	Retail		
(b) Regular,	Purchase		
	Margin		
<hr/>			
	Retail		
(c) Diesel,	Purchase		
	Margin		
<hr/>			

83. About what percentage of your gasoline business is handled with:

(a) Credit cards	%
(b) Cash	%
(c) Charge Accounts	%

85. Specify from what source you buy each of the following products:

	Your Brand Oil Company	Supplier Suggested by Oil Company	Independent Supplier Chosen by you
Oil	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tires	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Batteries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accessories	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Antifreeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

86. Compare the prices you pay the oil company or the supplier suggested by your oil company with the prices you would pay for similar items to independent suppliers.

	<u>Lower</u>	<u>Same</u>	<u>Higher</u>	<u>Comments (if any)</u>
Oil	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Tires	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Batteries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Accessories	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Antifreeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

87. Compare the service received from your oil company or the supplier suggested by your oil company with the service available from other suppliers.

	<u>Better</u>	<u>Same</u>	<u>Worse</u>	<u>Particulars</u>
Oil	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Tires	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Batteries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Accessories	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Antifreeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

88. Do you have the same privileges to exchange or return unsold items to your oil company or the supplier suggested by your oil company that you would to other suppliers of similar products?  
Yes ☐ No ☐
89. Do you buy or order goods offered or suggested by your oil company that you would prefer not to handle or otherwise would not take?  
Yes ☐ No ☐

#### PROBLEMS AND SOLUTIONS

90. In general, what are the biggest problems facing your service station today?
91. Specify problems in order of importance.
92. In general, what are the biggest problems facing the service station business?
93. What solutions do you suggest for these problems?
94. General observations by interviewer.

**PART II**  
**FINANCIAL**

(All data for 1965 or the last fiscal year)

95. Value of operator's investment:

**CURRENT ASSETS:**

Cash on hand and in bank \$ \_\_\_\_\_  
Accounts Receivable \_\_\_\_\_  
Inventory: Gas \_\_\_\_\_  
Oil \_\_\_\_\_  
T.B.A. \_\_\_\_\_  
Supplies \_\_\_\_\_  
Other Current Assets \_\_\_\_\_

**FIXED ASSETS:**

Land \$ \_\_\_\_\_  
Buildings \_\_\_\_\_  
Equipment: Shop Equipment \_\_\_\_\_  
Tools \_\_\_\_\_  
Vehicles \_\_\_\_\_  
Office Equipment \_\_\_\_\_  
Other Fixed Assets \_\_\_\_\_

**TOTAL ASSETS**

96. What is the amount of your current debts? (CURRENT LIABILITIES) \$ \_\_\_\_\_

97. What is the amount of your long-term debt? (LONG TERM LIABILITIES) \_\_\_\_\_

**TOTAL LIABILITIES**

98. What is the value of your current equity in your business? \_\_\_\_\_

99. When you first started your station what were: a) your total assets \_\_\_\_\_

and b) your total liabilities \_\_\_\_\_

Your initial equity \_\_\_\_\_

NAME OF STATION \_\_\_\_\_

ADDRESS \_\_\_\_\_

NUMBER \_\_\_\_\_

For the \_\_\_\_\_ month period

ending \_\_\_\_\_ 196 \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_

\$ \_\_\_\_\_



100. Including yourself, describe for each person employed his position, duties, hours of work and earnings under the following headings.

Description of position	PERCENTAGE of time worked at different duties					Hours Worked	Earnings				
	Petroleum Sales		Merchandise Sales	Repair Operations	Administration						
Operator, Mechanic, Pump Attendant, Lube Man, Bookkeeper, etc.	Gas Pumps	Oil Changes Gear oil Transmission oil Labor	Selling tires, batteries, anti-freeze or other merchandise and equipment Labor to install merchandise	Repair Labor Charged to Customer	Clean up, Shop Maintenance Administration and miscellaneous		per week	per hour	per week	per month	per year
1. Operator											
2.											
3.											
4.											
5.											
6.											
7.											
8.											
9.											
10.											
11.											
12.											
13.											
14.											

101. Including yourself, calculate for each person employed the part of his annual earnings to be charged under each of the following headings.

Description of position	Petroleum Sales		Merchandise Sales		Repair Operations		Administration	
	Percent- age of time	Annual earnings of man = Amount	Percent- age of time	Annual earnings of man = Amount	Percent- age of time	Annual earnings of man = Amount	Percent- age of time	Annual earnings of man = Amount
1. Operator								
2.								
3.								
4.								
5.								
6.								
7.								
8.								
9.								
10.								
11.								
12.								
13.								
14.								
	Petroleum Products Sales Labour	\$ _____	Merchandise Sales and Installation Labour	\$ _____	Repair Operations Labour	\$ _____	Administration, Clean-up and Miscellaneous Labour	\$ _____

102. Labour

	Cost of Labour (Enter from Section 101)	Sales of Labour Charged to Customers (From Financial Statements)
Petroleum Products Sales Labour	_____	_____ *
Merchandise Sales and Installation Labour	_____	_____ +
Repair Operations Labour	_____	_____
Administration, Clean up, Maintenance and Miscellaneous Labour	_____	Nil _____
TOTAL	_____	_____

\* Include only labour charged to customer for installing petroleum products, e.g. engine oil, gear oil, and transmission oil.

+ Include only labour charged to customer for installing merchandise and equipment, e.g. tires, batteries, and antifreeze.

103. PETROLEUM PRODUCTS SALES

Items	Total Sales	- Total Purchases	= Excess of Sales Over Purchases	Cost of Labour for Petroleum Sales	Sale of Labour Charged to Customer for installing engine oil, gear oil or transmission oil	Petroleum Products Sales (Excess of Sales over Purchases)	
Gasoline				(use total from Section 101)	(enter from Section 102)	Labor for Petroleum Sales (net cost (or) profit)	
Oil						Profit (loss) from Petroleum Sales	

104. MERCHANDISE AND EQUIPMENT SALES AND INSTALLATION (excluding repair parts)

Items	Total Sales	- Total Purchases	= Excess of Sales Over Purchases	Cost of Labour to Sell and Install Merchandise	Sale of Labour Charged to Customer for Installation	Merchandise Sales (Excess of Sales over Purchases)	
Tires & Tubes				(use total from Section 101)	(enter from Section 102)	Merchandise Labor (net cost (or) profit)	
Batteries						Profit (loss) from Merchandise and Equipment Sales and Installation	
Antifreeze							
Accessories							
Other over counter sales							

105. REPAIR OPERATIONS

Items	Total Sales	- Total Purchases	= Excess of Sales Over Purchases	Cost of Repair Labour	Sale of Repair Labour Charged to Customers	Repair Parts Sales (Excess of Sales over Purchases)	
Repair parts sold				(use total from Section 101)	(enter from Section 102)	Repair Labour (net profit (or) cost)	
						Profit (loss) from Repair Operations	

GROSS PROFITS FROM PETROLEUM, MERCHANDISE AND REPAIRS

106. Profit from Petroleum Sales (Section 103) \$

Profit from Merchandise and Equipment Sales and Installation (Section 104)

Profit from Repair Operations (Section 105)

Income from other associated business (if any)  
Specify:

Gross Profit \$

Cost of labour for Administration, Clean up, Maintenance, Miscellaneous (Section 101)

Rent

Depreciation

Service Station Expenses (not including labour or rent)

Costs of other associated business (if any)  
Specify:

Total \$

Net Profit

Comments on the accuracy of the data in Part II:

- Net profit after drawings shown by operator's financial statements \$
- Drawings of operator shown in financial statements \$
- Estimate by operator of his actual earnings over accounting period \$

### **(3) Information from Oil Companies**

The Committee expected that when its interviews with service station operators were completed it would have some understanding of the operations and the problems of service station operators. In order to obtain the oil company point of view we proposed to submit a series of questionnaires to oil companies.

Preliminary to doing so we held a number of meetings with the senior executives of each oil company engaged in marketing in the province of Alberta. We outlined our proposed plan of procedure, requested their cooperation, and asked each company to designate one executive through whom all our requests for information could be funnelled.

In British Columbia Professor Milton Moore had been largely responsible for preparation of the questions submitted to the oil companies in connection with their Royal Commission. We had a copy of these questions which we had the opportunity of reviewing with some of the B.C. economists. We also had the opportunity of discussions with Mr. Trevor Williams, C.A. the Commission accountant who had compiled and analyzed the data resulting from the oil company questionnaires in British Columbia.

In the Alberta enquiry the emphasis was on relationships between oil companies and operators, rather than on price structure as was the case in B.C. Instead of dealing with all problems in one questionnaire, as B.C. had done, we hoped to ask questions progressively so that our knowledge would be increased by having available the answers to earlier questions, before asking subsequent ones. This hope did not work out as well as anticipated due to the lengthy time required by the oil companies to prepare their replies.

During 1966 and 1967 a series of twenty-two questionnaires were mailed at intervals to the following eleven oil companies marketing in Alberta:

- Imperial Oil Limited
- British American Oil Company Limited
- Royalite Oil Company Limited
- Texaco Canada Limited
- Shell Canada Limited
- Pacific Petroleums Limited
- Husky Oil Canada Limited
- Federated Co-operatives Limited
- Standard Oil Company of B.C. Limited
- Mohawk Oil Company Limited
- U.F.A. Co-operative

The 121 questions included in the questionnaires were designed to elicit information to complement the service station study. They covered a variety of subjects particulars of which are shown in the questionnaires, reproduced as Tables 173 to 194.

TABLE 173

Province of Alberta

GASOLINE MARKETING ENQUIRY

Information From Oil Companies

The purpose of this study is to obtain facts and informed opinions concerning the business of marketing gasoline and related products and to determine the nature and extent of any problems which may exist in this business.

It is not the intention of the Enquiry to disclose or identify individual problems, practices or opinions of any specific oil company, person or business. However, from these questionnaires and other sources, statistical data may be developed, facts may be compiled and summaries made on which to base conclusions in the report of the Committee to be made to the Government of Alberta.

Kenneth A. McKenzie, Q.C., Edmonton - Chairman

Arthur Fitzpatrick, P.Eng., Edmonton

Allan N. Rose, Calgary



## QUESTIONNAIRE 1

1. Name of Oil Company \_\_\_\_\_
2. State number of retail outlets in Alberta in each of the following categories which sold the company's brand of gasoline in 1965.
- (a) Outlets operated by lessee from Oil Company.
  - (b) Outlets operated by Oil Company employees.
  - (c) Outlets operated by independent dealer financed by Oil Company.
  - (d) Outlets operated by independent dealer not financed by Oil Company.
  - (e) Other outlets.

Total retail outlets in Alberta.

3. State number of bulk stations in Alberta in each of the following categories which sold the Company's products in 1965.
- (a) Outlets operated by lessee from Oil Company.
  - (b) Outlets operated by Oil Company employees.
  - (c) Outlets operated by independent dealer financed by Oil Company.
  - (d) Outlets operated by independent dealer not financed by Oil Company.
  - (e) Other outlets.

Total bulk outlets in Alberta.

TABLE 174

## QUESTIONNAIRE 2

### General Rental Policy

Name of Oil Company \_\_\_\_\_

4. What factors does your company take into consideration in fixing the rental to be paid by a lessee of a service station from your company?
5. In your service station leases, is the formula for the rent your company charges to its lessees generally expressed in:
- (a) dollars per month ☐
  - (b) cents per gallon ☐
  - (c) a percentage of gross revenue from the station ☐
  - (d) a combination of two or more of the above ☐  
(give particulars)
  - (e) some other manner ☐  
(give particulars)

6. List and explain the various rental formulae used by your company (the list should be in order of most frequent usage, the most frequently used being listed first).
7. In service station leases, do you generally attempt to obtain a percentage return on your invested capital?

Yes ☐ No ☐

- If yes, (a) what percentage return on invested capital is your objective?  
(b) in what percentage of your stations has this objective been attained?

8. In general, does the capital you invest in a service station have a bearing on the rent charged by your company for that service station

Yes ☐ No ☐

If yes, outline your company policy as to any relationship between capital invested and rent charged.

9. State your company's policy with respect to the rents it charges for its service stations, as related to gallonage of gasoline sold, gross revenue from the station and other factors considered in fixing the rent to be charged to the lessee.

TABLE 175

QUESTIONNAIRE 3

Name of Oil Company _____		1965	1964	1963	1962	1961	1960	1959	1958	1957	1956
10.	Total number of lessees of service stations from your company.										
11.	Total number of lessees whose leases of a particular station terminated for any reason.										
12.	Percentage of terminations, (that number of lessees whose leases terminated in a year bears to total number of lessees in that year).										

TABLE 176  
QUESTIONNAIRE 4

Number and Trends

For purposes of this questionnaire:-

- (a) "Independent" means a retail outlet not owned directly or indirectly by the oil company and not held by the oil company under lease;
- (b) "Financed" means the oil company has directly or indirectly advanced or caused to be advanced monies to a retail outlet, secured by a mortgage on the lands, buildings or improvements comprised in the outlet.

Name of Oil Company \_\_\_\_\_

13. State number of retail outlets in Alberta in each of the following categories which sold in the company's brand of gasoline in each of the years indicated.

1965    1960    1955    1950

- (a) owned by oil company directly
- (b) owned by oil company indirectly  
(through a subsidiary associated,  
related or affiliated company or  
otherwise)
- (c) held by oil company under lease  
(directly or indirectly)
- (d) independents, financed
- (e) independents, not financed

14.

State gasoline gallonage sold by retail outlets in Alberta which sold the Company's brand of gasoline in each of the following categories in each of the years indicated.

- (a) by outlets owned or held under lease by oil company directly or indirectly:

1965                      1960                      1955                      1950

- (b) by independents, financed:

1965                      1960                      1955                      1950

- (c) by independents, not financed:

1965                      1960                      1955                      1950

15. In case of independent outlets which sold the company's brand of gasoline in 1965.

- (a) how many were financed?

- (b) how many had entered into a product agreement, dealership agreement, franchise agreement or other similar agreement providing, as a general rule for the purchase of petroleum products from your company exclusively?
  - (c) how many were indebted to you in connection with the purchase of chattels or equipment secured by chattel mortgages?
  - (d) how many had no indebtedness to you (other than for products purchased from you when no security was taken)?
16. How many outlets has your company purchased from independent operators from January 1st, 1950 to December 30th, 1965?
17. How many outlets has your company sold to independent operators from January 1st, 1950 to December 30th, 1965?

TABLE 177  
QUESTIONNAIRE 5

Name of Oil Company \_\_\_\_\_

18. What procedure to you generally use in recruiting and selecting lessees for your stations? (Please illustrate by a typical example.).
19. What training, experience and personal qualities do you look for in a prospective lessee?
20. On what basis do you reject a prospective lessee?
21. Outline the operating capital and financial equity that you usually require a prospective lessee to have.
22. Do you provide a training programme for new lessees?  
Yes ☐ No ☐
- If yes:
- (a) average duration of formal training programme.
  - (b) course outlines
  - (c) list subjects taught and hours of training on each
  - (d) average size of class
  - (e) describe follow-up on the job instruction
  - (f) other comments
  - (g) how many of your new lessees have attended such training programmes during 1965?



23. Do you provide training programmes for existing lessees?

Yes ☐ No ☐

If yes:

- (a) duration of the formal training
- (b) course outlines
- (c) list subjects taught and hours of training on each.
- (d) describe follow up on the job instruction
- (e) average size of class
- (f) other comments
- (g) how many existing lessees took such training in 1965?

24. Give the following particulars relating to your training personnel:

- (a) name of each instructor
- (b) qualifications of instructor
- (c) number of days spent by instructor in 1965 instructing in formal training programme.

25. In what ways (if any) would your company like to improve training for lessees, i. e.

- (a) who should attend
- (b) what should be taught
- (c) who should be the instructors
- (d) when should it be given
- (e) how long should the training be
- (f) where should the training take place
- (g) other comments

TABLE 178

QUESTIONNAIRE 6

26. In the case of each service station built or financed by your company (or by a subsidiary associated, related or affiliated company) since January 1st, 1956, which was not being operated as a service station at December 31st, 1965, please prepare a "Service Station Closure Report" in the following form setting out the information indicated.

## SERVICE STATION CLOSURE REPORT

Name of Oil Company \_\_\_\_\_

1. Name of station
2. Complete address of service station:
  - (a) Street address and town or city
  - (b) Legal description (if no street address)
  - (c) Highway No. (if any)
3. Number of years service station was operated
4. List the following particulars about each operator who operated the station at any time between the above dates, showing:

<u>Name of Operator</u>	Designate whether operator was lessee, employee of oil com- pany or owner.	Duration of operation of station by operator	
		<u>Years</u>	<u>Months</u>

5. State gasoline gallonage sold each year during the years station was operated.

<u>Year</u>	<u>Gallonage Sold</u>	<u>Year</u>	<u>Gallonage Sold</u>
-------------	-----------------------	-------------	-----------------------

6. Did gross sales during operational life of station and rental received enable oil company to recover it's investment in that station?
7. List Oil Company reasons for closure of station.
8. List assumptions made by oil company on which the decision to build or finance station was based which were incorrect or failed to materialize in whole or in part.
9. Other comments.

TABLE 179

### QUESTIONNAIRE 7

Name of Oil Company \_\_\_\_\_

27. For different types of service stations as you would categorize them, state as a general rule the sales ratios or relationships between:
  - (a) the number of gallons of gasoline sold;
  - (b) the volume of oil sold;
  - (c) the dollar volume of other merchandise sold, including tires, batteries and accessories;
  - (d) the dollar volume of repair business.

<u>Category of Station</u>	<u>Gasoline</u>	<u>Oil</u>	<u>T.B.A. &amp; Merchandise</u>	<u>Repair</u>
Normal Urban Station				
Highway Station				

(specify category)

(specify category)

28. What is the minimum potential gasoline volume for which your Company would consider building a standard service station with two pumps and two bays.
29. What is the maximum volume that a busy, efficiently run service station, with two pumps and two bays could reasonably handle in the opinion of your company, without increasing its physical facilities.

<u>Gasoline</u>	<u>Oil</u>	<u>T.B.A. &amp; Merchandise</u>	<u>Repair</u>
-----------------	------------	---------------------------------	---------------

- (a) if open 12 hours per day
- (b) If open 24 hours per day
30. To induce your Company to provide a Lessee with an additional pump island and two pumps.
- (a) what volume of gallonage would you expect him to have obtained through his first pair of pumps.
- .....gals.
- (b) What is the minimum potential additional gallonage that you would expect him to handle with the additional pumps.
- .....gals.
- (c) State other considerations
31. To induce your Company to provide a Lessee with an additional service bay.
- (a) What dollar volume of business would you expect him to have attained through his existing bays.
- .....
- (b) What is the minimum potential dollar volume of business that you would expect him to handle with the additional bay.
- .....

(c) What gasoline gallonage would you expect him to have attained

(d) State other considerations.

TABLE 180  
QUESTIONNAIRE 8

32. In the case of each lessee who ceased being a lessee of a particular service station from your oil company during the years 1961 to 1965 inclusive, please prepare a "Service Station Lease Termination Report" in the following form setting out the information indicated.

SERVICE STATION LEASE TERMINATION REPORT

Name of Oil Company \_\_\_\_\_

1. Full name of lessee terminated \_\_\_\_\_

2. Last known address of lessee terminated (preferably residence address) \_\_\_\_\_

3. Name of station \_\_\_\_\_

4. Complete address of service station:

(a) Street address and town or city \_\_\_\_\_

(b) Legal description (if no street address) \_\_\_\_\_

(c) Highway No. (if any) \_\_\_\_\_

5. Date lessee commenced to operate service station \_\_\_\_\_

6. Date lessee ceased to operate service station \_\_\_\_\_

7. Oil company's best estimate of amount invested by lessee on commencement \_\_\_\_\_

8. Oil company's best estimate of amount realised by lessee upon termination \_\_\_\_\_

9. State gallonage sold by service station each month for the 12 months immediately prior to termination.

GALLONAGE FOR MONTH

Month preceeding termination \_\_\_\_\_

Two months preceeding termination \_\_\_\_\_

Three months preceeding termination \_\_\_\_\_

Four months preceeding termination \_\_\_\_\_

Five months preceeding termination \_\_\_\_\_



GALLONAGE FOR MONTH

Six months preceeding termination \_\_\_\_\_

Seven months preceeding termination \_\_\_\_\_

Eight months preceeding termination \_\_\_\_\_

Nine months preceeding termination \_\_\_\_\_

Ten months preceeding termination \_\_\_\_\_

Eleven months preceeding termination \_\_\_\_\_

Twelve months preceeding termination \_\_\_\_\_

10. State oil company's best estimate of operator's net income for the 12 month period immediately prior to termination \_\_\_\_\_
11. Was operator's dissatisfaction with his net income apparently one of the causes for termination. Yes ☐ No. ☐
12. List other reasons given by operator for termination.
13. State oil company opinion of service station, its location and economic prospects.
14. State oil company opinion of qualifications, ability and attitude of operator who ceased to be lessee.
15. State oil company opinion re causes for termination of lease.
16. Did your company assist this lessee to re-establish in other employment. Yes ☐ No ☐
- If yes, give particulars.

TABLE 181

QUESTIONNAIRE 9

Name of Oil Company \_\_\_\_\_

33. Give particulars of the sale of each refined petroleum product sold in Alberta by your company during 1965 as follows;

Name of Product	Unit of Measure (gals lbs.)	1965 sales volume (thou-sands of units)	Total Dollar amount of 1965 sales* (in thousands)	Average Sale Price* Per Unit
-----------------	-----------------------------	---	---	------------------------------

\*(Net to oil company excluding Federal Sales Tax & Alberta Road Tax)

34. Give particulars of your posted tank truck prices at Edmonton in cents per gallon as follows:

Jan. 1 1965	Dec. 31 1965
----------------	-----------------

- |   |       |       |
|---|-------|-------|
| (a) posted dealer tank truck price              | _____ | _____ |
| (b) posted commercial consumer tank truck price | _____ | _____ |
| (c) posted other consumer tank truck price.     | _____ | _____ |

35. During 1965 at each place throughout the province did the same differential exist at all times between the three posted tank truck prices, namely:

	YES	NO
posted dealer truck price	<input type="checkbox"/>	<input type="checkbox"/>
posted commercial consumer tank truck price	<input type="checkbox"/>	<input type="checkbox"/>
posted other consumer tank truck price	<input type="checkbox"/>	<input type="checkbox"/>

If not, give particulars.

36. Give particulars of gasoline sales of your company in Alberta during 1965 as follows:

Type of Sale -	1965 Volume (Thousands of gallons)	% of 1965 Gasoline Volume	Total Dollar Amount of 1965 Sales (\$n Thousands)*	Average Sale Price per Gallon*
(a) Sales based on dealer posted tank truck price to dealers or resellers at retail selling your brand of gasoline.				
(b) sales based on commercial consumer posted tank truck price to commercial or industrial accounts, governments, etc.				
(c) sales based on other consumer posted tank truck price, to farmers, etc.				
(d) sales based on tendered or negotiated prices to off branders or wholesalers for resale, etc.				
(e) sales to and exchanges with other major oil companies who operate brand name service stations.				
(f) other sales f.o.b. the refinery (if material, give descriptions or classifications of purchasers)				

\* (Net to oil company, excluding Federal Sales Tax and Alberta Road Tax)

37. Give the total number of commercial consumers in Alberta to whom your company sold gasoline during 1965.

38. Give the total number of off branders and wholesalers to whom your company sold gasoline during 1965.

TABLE 182  
QUESTIONNAIRE 10

Name of Oil Company \_\_\_\_\_

39. Categorize your bulk stations in Alberta according to the types of contracts with the various categories of operators, designate the number of operators in each category during the year 1965, describe the nature of the relationship between the oil company and each category of operators and supply three (3) blank copies of each standard form of contract.

40. How many operators of your bulk stations are remunerated primarily:-
- (a) as employees by wages or salaries;-
  - (b) as agents by commissions on sales or deliveries of petroleum products and other merchandise.
  - (c) as purchasers of petroleum products and other merchandise for resale at such mark-up as they may fix
  - (d) by other methods (give particulars)
41. In the case of commissions paid on sales or deliveries of gasoline give particulars in each case of the most common rate of commission and the range of rates in cents per gallon.

Most Common Rate	Range of Rates From      To	
---------------------	--------------------------------	--

- (a) to farm distributors for sales to farmers.
  - (b) to other bulk station operators for sales to farmers.
  - (c) to bulk station operators for supplying assigned accounts of the oil company such as service stations, garages, commercial users, etc.
  - (d) to bulk station operators for supplying contract buyers from the oil company such as road contractors, drilling contractors, etc.
42. What was the gross amount your company paid in commissions to your bulk station operators in Alberta, including farm distributors, during 1965:-

(a) for sales of petroleum products	
(b) for sales of fertilizer and farm chemicals	
Total	

43. Is a bulk operator or farm distributor who is remunerated for his sales on a commission basis normally charged for the price of the -
- |   | YES                      | NO                       |
|---|--------------------------|--------------------------|
| (a) petroleum products delivered to him             | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) fertilizer and farm chemicals delivered to him. | <input type="checkbox"/> | <input type="checkbox"/> |

44. Outline your company policy on extending credit to your bulk dealers and farm distributors.

45. In the case of a bulk operator or farm dealer who sells to a farmer on credit, who normally grants the credit to the farmer.

	The Oil Company	The bulk oper- ator or farm distributor
(a) in the case of petroleum products	<input type="checkbox"/>	<input type="checkbox"/>
(b) in the case of fertilizer and farm chemicals	<input type="checkbox"/>	<input type="checkbox"/>

46. How much did your bulk operators and farm distributors in Alberta owe your company for merchandise including petroleum products, fertilizer and farm chemicals as of the following dates:

30 June 65

30 Sept. 65

31 Dec. 65

47. Give the total amount of book debts assigned to your oil company by its bulk operators and farm distributors in Alberta as of the following dates:

48. From how many of your bulk dealers and farm distributors did you have assignments of any or all of their accounts receivable to your oil company in 1965?

49. Is a bulk operator or farm distributor who operates a bulk plant owned by the oil company normally charged rent for premises from which he operates?

YES NO  
☐ ☐

50. Outline the initial investment and the operating capital that you usually require a prospective bulk operator or farm distributor to have.

51. Are your bulk operators and farm distributors who are remunerated for their sales on a commission basis normally expected to acquire and maintain their own trucks and truck tanks?

YES NO  
☐ ☐

52. Having regard to the many variables such as tank truck capacity, tank truck investment, annual volume of deliveries by the tank truck, nature of the area and the market served, etc., do three calculations to illustrate the range of delivery costs per gallon including cost of loading and un-loading incurred by your bulk operators and farm distributors. Select three (3) of your bulk outlets as follows:

- (a) one with a low volume in a poor sparsely populated area;
- (b) one with average volume in an area with an average population density and conditions;
- (c) one with a high volume in an unusually favorable situation.

Outline the relevant facts existing in each of these outlets and for each calculate the delivery cost per gallon of the particular bulk operator or farm distributor as the case may be, showing particulars of your calculations.



QUESTIONNAIRE 11

53. In the case of each service station which was occupied by a lessee from your Company during 1965, please prepare a "Service Station Rental Report" in the following form setting out the information indicated.

Service Station Rental Report

Name of Oil Company \_\_\_\_\_

1. Name(s) of lessee(s) of station from oil company in 1965.
2. Name of service station.
3. Complete address of service station:
  - (a) street address and town or city
  - (b) legal description (if no street address)
  - (c) Highway No. (if any)
4. Indicate how oil company holds service station.
  - (a) as owner
  - (b) as lessee from \_\_\_\_\_  
Name of Landlord
  - (c) other (specify)
5. State rental rate (s) specified in lease (s) applicable during 1965 payable by lessee to oil company.
6. Total gallonage sold to station in each of the following years:
 

1965	1964	1963	1962	1961
------	------	------	------	------
7. Dollar amount of rent collected by oil company from service station lessee in each of the following years:
 

1965	1964	1963	1962	1961
------	------	------	------	------
8. Oil company estimate of net profit of lessee of service station in each of the following years.
 

1965	1964	1963	1962	1961
------	------	------	------	------
9. In any case where the oil company leases the service station from another landlord:
  - (a) State the amount of rent paid by the oil company for the service station in each of the years;
 

1965	1964	1963	1962	1961
------	------	------	------	------



14. State for this station: the number of pumps \_\_\_\_\_  
the number of bays \_\_\_\_\_

15. Are there any special circumstances affecting this station which have a bearing on the rental charged? (give full particulars)

TABLE 184  
QUESTIONNAIRE 12.

Name of Oil Company \_\_\_\_\_

54. Does your company sell to it's brand name service stations in Alberta (either directly or through a subsidiary, related or affiliated company)?

	YES	NO
(a) Tires and tubes	<input type="checkbox"/>	<input type="checkbox"/>
(b) Batteries	<input type="checkbox"/>	<input type="checkbox"/>
(c) Anti-freeze	<input type="checkbox"/>	<input type="checkbox"/>
(d) accessories and other products (excluding petroleum products)	<input type="checkbox"/>	<input type="checkbox"/>

if yes -

- (a) State the name of the company that makes such sales.  
(b) List all the products which the company sells to service stations.

55. Is your company a party to any "market access agreement" or other agreement with one or more suppliers of any of the following items which agreement gives the supplier access to your brand name service stations for the sale of the supplier's product?

	YES	NO
(a) Tires and tubes	<input type="checkbox"/>	<input type="checkbox"/>
(b) Batteries	<input type="checkbox"/>	<input type="checkbox"/>
(c) Anti-freeze	<input type="checkbox"/>	<input type="checkbox"/>
(d) Accessories and other products (excluding petroleum products)	<input type="checkbox"/>	<input type="checkbox"/>

56. In the case of each such agreement;

- (a) give the name of the supplier;  
(b) list the products covered by the agreement;  
(c) give as a percentage of total sales of each item under the agreement, the bonus, rebate, commission, or other payment or allowance payable to the oil company.

57. For the calendar year 1965 give the total dollar volume of sales of the following T.B.A. items and other products to service stations in Alberta which sell your brand of petroleum products.

	By Oil Company or Subsidiary	By Suppliers Under Market Access Agreements
(a) Tires and tubes		
(b) Batteries		
(c) Anti-freeze		
(d) Accessories and other products (excluding petroleum products)	\$ _____	\$ _____

58. For the calendar year 1965.

- (a) State the net profit of the oil company or its subsidiary resulting from sales by it of T.B.A. items and other products referred to above, to service stations in Alberta which sell the oil company's brand of petroleum products. \$ \_\_\_\_\_
- (b) State the total amount received by the oil company resulting from sales by suppliers of T.B.A. items and other products referred to above under market access agreements, to service stations in Alberta which sell the oil company's brand of petroleum products \$ \_\_\_\_\_

59. In respect of each of the following items, (if the oil company either sells it, or arranges for it's sale through a supplier under a market access agreement to service stations which sell the oil company's brand of petroleum products,) state the percentage of such service stations, in each category indicated, which purchase the said item from the oil company or suggested supplier.

	% of lessee stations which purchase item	% of In- dependents financed which purchase items	% of In- dependents not financed which purchase item
(a) Tires and tubes	_____	_____	_____
(b) Batteries			
(c) Anti-freeze			
(d) accessories and other products (excluding petroleum products)			



60. In respect of each of the following items(if the oil company either sells it or arranges for it's sale through a supplier under a market access agreement to service stations which sell the oil company's brand of petroleum products) estimate the approximate percentage of the total purchases of each item made by such service stations, in each category indicated,

- (1) which is probably sold by the oil company, a subsidiary, or a supplier having a market access agreement with the oil company; and
- (2) which is probably sold by competitive suppliers.

<u>Lessee Stations</u>		<u>Independents financed</u>		<u>Independents not financed</u>	
% of purchases supplied by		% of purchases supplied by		% of purchases supplied by	
(1)	(2)	(1)	(2)	(1)	(2)

- (a) tires and tubes
- (b) batteries
- (c) anti-freeze
- (d) accessories and other  
products (excluding  
petroleum products)

61. Give the following particulars of all "fuel line forcing", "directed buying" and other contractual provisions having a similar effect or referring to similar undertakings given by the operator, that the oil company uses with any category of it's retail dealers:-

- (a) the name or description of the type of contract in which the provision is included (e.g. lease of premises, retail dealer agreement, T.B.A. products agreement, dealer lubricant agreement, equipment loan agreement, land mortgage, chattel mortgage, conditional sale agreement, or other contract or agreement)
- (b) the full text of each such provision occurring in that contract (whether the provision is applicable to petroleum products, lubricants, T.B.A. products, or any other item sold by the service station)
- (c) the full text of any provision limiting the use of premises or equipment to the handling of designated or authorized products.
- (d) the full text of any provision limiting the operator from dispensing or handling the products of others or installing equipment for such purpose.

62. Apart from formal written contracts, is there an understanding with your dealers that they will handle the products you sell or the products you suggest?

YES NO  
☐ ☐

63. In respect of each of the following items (if the oil company either sells it or arranges for it's sale through a supplier under a market access agreement) indicate whether the cost to a service station of purchasing from the oil company or it's suggested supplier is lower, the same, or higher than the cost of purchasing an equivalent or competitive item from an independent wholesale source.

	Prices from oil company or supplier suggested by oil company		
	Lower	The Same	Higher
(a) tires and tubes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(b) batteries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(c) accessories and other products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(d) anti freeze	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

TABLE 185

QUESTIONNAIRE 13

Name of Oil Company \_\_\_\_\_

The term "advertising" as used in this questionnaire is intended to cover advertising of all sorts including national and local advertising, advertising by various media such as newspaper, radio, TV, and bill board, brand signs on premises and vehicles, point of sale advertising, road maps and touring services, special promotions involving gifts, or prizes, and general publicity and public relations of all sorts.

64. Give the percentage of the total expenditure of your company for advertising in 1965.

- (a) directed toward retail customers  
(including all brand name advertising  
of a general nature) \_\_\_\_\_ %
- (b) directed primarily toward other than retail  
customers (e. g. industrial or wholesale) \_\_\_\_\_ %
- \_\_\_\_\_ 100 %

65. Divide the total expenditure of your company during 1965 for advertising of all sorts directed toward retail customers by the total gallonage sold by your company through retail outlets selling your brand name products in 1965, to express the cost of such advertising in cents (cents) per gallon.

Advertising expense \_\_\_\_\_ =  
 Brand retail gallonage \_\_\_\_\_ = \_\_\_\_\_ cents per gallon

66. Divide the total expenditure of your company during 1965 for advertising of all sorts directed toward retail customers by the total number of retail outlets selling your brand name products in 1965, to express the cost of such advertising in dollars per retail outlet.

Advertising expense \_\_\_\_\_ =  
 Brand name outlets \_\_\_\_\_ \$ \_\_\_\_\_ per outlet

67. Outline the policy and practice of your company on local "shared cost" advertising programs where a percentage of the cost is contributed by your oil company and a percentage is contributed by service station operators (other than special promotions described in questions 70 and 71)

68. In respect of such local "shared cost" advertising programs

(a) indicate the normal range of contributions

(i) contributed by oil company from \_\_\_\_\_ % to \_\_\_\_\_ %

(ii) contributed by service station operators collectively from \_\_\_\_\_ % to \_\_\_\_\_ %

(b) indicate the average percentage of total cost contributed by oil company \_\_\_\_\_ %

69. Illustrate how such a local shared cost program operates by taking a typical specific case in Edmonton or Calgary giving particulars showing:-

(a) Brief description of program and how it is organized and administered:

(b) total cost of program: \$ \_\_\_\_\_

(c) Amount contributed by company \$ \_\_\_\_\_

(d) Amount contributed by participating operators. \$ \_\_\_\_\_

(e) Number of operators participating \_\_\_\_\_

(f) Average cost per operator \$ \_\_\_\_\_

70. Between January of 1963 and December 1966 has your company engaged in a special advertising promotion which enabled a purchaser of your gasoline to become eligible to enter a contest, or to win a prize or premium, or to purchase designated merchandise, or to receive some other benefit, advantage or award.

YES NO

☐

☐

71. In respect of each such special promotion engaged in by your company between January 1963 and December 1966 give the following particulars: (if more than three, select only the three largest)

- (a) the popular name of the promotion.
- (b) the dates between which the promotion was carried on.

from \_\_\_\_\_ to \_\_\_\_\_

- (c) A brief description of the promotion.
- (d) What did a customer have to do or pay to participate or to be eligible.
- (e) In a promotion where the gasoline customer received the right to buy another item of merchandise from the operator, show:

- (1) the cost of the item to the oil company \$ \_\_\_\_\_
- (2) the price at which the oil company sold the item to the operator. \$ \_\_\_\_\_
- (3) the price at which the operator sold the item to the customer. \$ \_\_\_\_\_

-----

- (4) total net cost of promotion to oil company (after deducting amounts paid by service station operators for purchase of such merchandise) \$ \_\_\_\_\_
- (5) total net cost of promotion to service station operators (after deducting amounts paid by customers for purchase of such merchandise) \$ \_\_\_\_\_
- (6) total paid by customers for such merchandise \$ \_\_\_\_\_
- (7) total cost of promotion add (4) + (5) + (6) \$ \_\_\_\_\_
- (8) total cost of merchandise to oil company \$ \_\_\_\_\_
- (9) deduct total paid by all customers for merchandise \$ \_\_\_\_\_
- (10) Net benefit to all customers from promotion. \$ \_\_\_\_\_

- (f) In a promotion where a gasoline customer received either a free coupon, premium, ticket or chance, or a free item of merchandise or other gift show:



- (1) the cost to the oil company of:-

One coupon, premium, ticket or chance  
plus the fraction of the prizes it represents; or

One free item of merchandise or other gift. \$ \_\_\_\_\_

- (2) the price at which the oil company sold  
one coupon, premium, ticket, chance,  
item of merchandise or other gift to the  
operator. \$ \_\_\_\_\_

-----

- (3) the total net cost of the promotion to the  
oil company (after deducting amounts re-  
covered from service station operators) \$ \_\_\_\_\_

- (4) the total cost of the promotion to service  
station operators. \$ \_\_\_\_\_

- (5) total cost of promotion add (3) + (4) \$ \_\_\_\_\_

- (6) total benefit to customers (total amount  
of gifts, prizes or other benefits received  
by participating customers at cost to oil  
company in dollars)

72. With respect to the special promotions described in your answers to question 71 and having regard to the many variables such as the cost of the gift or merchandise to the operator, the cost to the operator of advertising, painting, shared advertising programs and other expenses resulting from the promotion, the tendency of some customers to make smaller purchases or more numerous purchases during such promotions, etc., estimate the average cost to the operator of his participation in the promotion expressed in cents (cents) per gallon or gasoline sold by him (list your facts and assumptions and show your calculations)

73. With respect to each of the special promotions you have described in answer to question 71 and based on the gallonage sold by your company at retail through brand name outlets during the special promotion.

- (a) express the total net cost of the promotion to the oil company (after deducting amounts recovered from service station operators) (either 71 (e) (4) or 71 (f) (3) in cents per gallon.
- (b) express the benefit to customers in cents per gallon (i.e. the net benefit calculated in 71 (e) (7) when merchandise is purchased, or the total benefit calculated in 71(f)(5) when the item is free)

Name of Promotion	(a)	(b)
	Oil Company cost in cents per gallon	Customer benefit in cents per gal.

74. Evaluate the success of the special promotions described in answer to question 71 having regard to your company objectives, whether they were offensive to increase your share of the market or defensive to maintain your share of the market, indicating whether in your opinion you attained a temporary or permanent percentage increase in your number of customers or your share of the market and indicating the effect of the campaign on your competitive position with other oil companies.
75. Give the following particulars of all contractual provisions or undertakings related to advertising or signs that are oil company uses with any category of its retail dealers:
- (a) the name or description of the type of contract in which the provision is included (e.g. lease of premises, retail dealer agreement, T.B.A. products agreement, dealer lubricant agreement, equipment loan agreement, land mortgage, chattel mortgage, conditional sale agreement, or other contract or agreement).
  - (b) the full text of any provision:-
    - (i) requiring the dealer to advertise or promote the sale of products sold by the company or by suppliers suggested by the oil company; or
    - (ii) requiring the dealer to advertise primarily or exclusively products sold by the oil company or products approved by the oil company; or
    - (iii) limiting or restricting the dealer from placing signs, advertising matter, or placards in or on the premises without the consent of the oil company; or
    - (iv) limiting or restricting the dealer from displaying advertising or offering for sale merchandise without the consent of the oil company; or
    - (v) relating in any other way to advertising.

TABLE 186  
QUESTIONNAIRE 14

Name of Oil Company \_\_\_\_\_

76. State the gasoline gallonage sold in 1965 by each retail outlet in Alberta which sold the company's brand of gasoline during the year (excluding only lessees enumerated in answer to question 53) as follows:-

NAME OF SERVICE STATION.	COMPLETE ADDRESS OF SERVICE STATION*	1965 GALLONAGE
-----------------------------	---	----------------

- \* Give street address and town or city, legal description (if no street address), and Highway number (if any).

TABLE 187  
QUESTIONNAIRE 15

Name of Oil Company \_\_\_\_\_

77. Give a breakdown of each of the types of gasoline sales shown in the answers to questions 36 (2) (b) (c) (d) and (e) of Questionnaire #9 as follows:-

(a) sales shown in 36 (a)

to dealers not on commission consignment (not on c.c. ), and to dealers on commission consignment (on c.c.)

	1965 Volume (Thousands of gallons)	% of Volume	Total dollar amount of 1965 Purchases (in thousands)* x	Average Purchase Price per Gallon * x
Premium (not on c.c.)				
Premium (on c.c.)				
Regular (not on c.c.)				
Regular (on c.c.)				
3rd Grade (not on c.c.)				
3rd Grade (on c.c.)				
Total		100%		

(b) sales shown in 36 (b) to commercial consumers.

Premium	
Regular	
3rd Grade	
Total	100%

\* (net to oil company, excluding federal sales tax and alberta road tax)  
x (excluding commissions paid to dealers on commission consignment)

(c) Sales shown in 36 (c) to other consumers

	1965 Volume (Thousands of gallons)	% of Volume	Total dollar amount of 1965 purchases (in thousands)* x	Average Purchase Price per Gallon * x
Premium				
Regular				
3rd Grade				
Total		100%		

(d) Sales shown in 36 (d) to off-branders

Premium	
Regular	
3rd Grade	
Total	

(e) Sales shown in 36 (e) to major oil companies

Premium  
Regular  
3rd Grade  
Total

78.

Give the total gasoline gallonage bought by your marketing department from refineries during 1965 for distribution in Alberta and the average price per gallon paid for each grade.

Premium  
Regular  
3rd Grade  
Total

\$ (Net to oil company, excluding Federal Sales Tax and Alberta Road Tax)

79. Supply us with three copies of each type of contract that you enter into with any of your service station dealers, bulk dealers, or farm dealers (e. g. lease of premises, retail dealer agreement, bulk dealer agreement, commission dealer agreement, franchise agreement, commission-consignment agreement, T.B.A. products agreement, consigned tire agreement, consigned battery agreement, dealer lubricant agreement, equipment loan agreement, equipment rental agreement, agency agreement, land mortgage, chattel mortgage, conditional sale agreement, advertising agreement and any other form of contract or agreement used from time to time between the company and any of such persons.)

TABLE 188  
QUESTIONNAIRE 16

Name of Oil Company \_\_\_\_\_

80. What was the total cost of:

- (a) transportation of all products incurred by your marketing department in respect of its Alberta operations during 1965 \$ \_\_\_\_\_
- (b) commissions on sales of all products, either paid by your oil company to your bulk dealers and farm dealers or allowed to them by way of discount from your posted tank truck prices or other prices charged by your company to such dealers, and relating to their marketing operations in Alberta during 1965. (As distinct from mark-ups or commissions added on to your prices by such dealers). \$ \_\_\_\_\_



- 81 Give particulars of commissions paid by your oil company to its service station operators in Alberta during 1965 for retailing gasoline as follows:

Type of Service Stn. Dealer.	Gasoline sold (thousands of gallons)	Commissions paid (thousands of \$)	Average rate of commissions (in cents per gal)
Retail Commission Dealers			
Dealers on Commission Consignment			
Total			

82. State the total current operating expenditure made by your marketing department relating to marketing in Alberta during 1965 (excluding only the cost of acquiring petroleum products and other products for resale, and excluding expenditures accounted for by your company as capital expenditures).

\$ \_\_\_\_\_

Give breakdown of this total marketing expenditure showing significant categories of expenditure.

- 83 Deduct from the total expenditure of your marketing department as shown in answer to question 82 the sum of that department's expenditures for transportation, bulk and farm dealer commissions, and retail gasoline commissions to obtain a gross marketing department expenditure excluding transportation and commissions.

Total marketing expenditure (quest. 82) \$ \_\_\_\_\_

(a) transportation cost (quest. 80(a)) \$ \_\_\_\_\_

(b) commissions, bulk and farm (ques. 80 (b)) \$ \_\_\_\_\_

(c) commissions, retail gasoline (quest. 81) \$ \_\_\_\_\_

Total excluding expenditures \$ \_\_\_\_\_ \$ \_\_\_\_\_

Gross marketing expenditure (less excluded expenditures) \$ \_\_\_\_\_

84. Divide the gross marketing expenditure (less excluding expenditures) shown in answer to question 83 by total gasoline gallonage marketed by your marketing department in Alberta during 1965, to express the average cost of marketing in cents per gallon of gasoline marketed.

Gross marketing  
expenditure  
in 1965 \$ \_\_\_\_\_ cents per gal.

total gasoline marketed by marketing department  
in 1965

Estimate and allocate the total commissions on gasoline paid to your bulk dealers and farm dealers relating to their marketing operations in Alberta during 1965 (that were paid or allowed by way of discount out of posted tank truck prices or had the effect of reducing the oil company realization from its posted tank truck prices, as distinct from mark-ups or commissions added on to posted tank truck prices by such dealers) as follows:

(a) handling commission	_____ %	\$ _____
(b) sales commissions	_____ %	\$ _____
Total commissions	100 %	\$ _____

86. Estimate and allocate your gross marketing department expenditure as shown in answer to question 83 relating to marketing in Alberta during 1965 as follows:-

Type of Market	Dollar expenditure (in thousands)	% of Expenditure
(a) Automotive sales (through service stations)	\$ _____	_____ %
(b) Farm Sales	\$ _____	_____ %
(c) Industrial/commercial sales	\$ _____	_____ %
Total marketing department expenditures	\$ _____	100 %

- 87 Give particulars of the gasoline sales of your marketing department in Alberta during 1965 as follows:

Type of Market	Gasoline Sales (in thousands of gallons)	% of Gasoline Volume mark- eted
(a) Automotive sales (through service stations)	_____	_____ %
(b) Farm sales	_____	_____ %
(c) Industrial/Commercial Sales	_____	_____ %
Total	_____	100 %

88. Divide the total expenditure allocated to each type of market shown in clauses (2), (b) and (c) of question 86 by the total gasoline gallonage sold by your company in Alberta during 1965 to that type of market, to express the expenditure for marketing to each type of market in cents (cents) per gallon of gasoline.

(a) Expenditure for automotive sales \$ \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

1965 automotive gasoline sales \_\_\_\_\_ gals.

(b) Expenditure for farm sales \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

1965 farm gasoline sales \_\_\_\_\_ gals

(c) Expenditure for indust. and commercial sales \$ \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

Industrial/commercial gasoline sales in 1965 \_\_\_\_\_ gals

- 89 Estimate and allocate your total marketing department receipts in dollars from sales of all products in Alberta during 1965 as follows:

Type of Market _____	Total receipts from gasoline sales _____	total receipts from all other product sales _____	Total Receipts _____
(a) Automotive sales (through service stations)	\$ _____	_____	_____
(b) Farm Sales	\$ _____	_____	_____
(c) Industrial/ Commercial Sales	_____	_____	_____
Total	=====	=====	=====

90. What was your total marketing department expenditure for training of service station operators in Alberta during 1965.

\$ \_\_\_\_\_

91. Divide the total expenditure for training of service station operators shown in answer to question 90 by the gasoline gallonage sold through your service stations in Alberta during 1965, to express the expenditure for training in cents (cents) per gallon of gasoline.

Expenditure for training \$ \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

1965 automotive gasoline sales \_\_\_\_\_ gal.

92. What was your total marketing department expenditure in Alberta during 1965 on service station outlets, or relating directly or indirectly to such outlets; (including planning and marketing studies, design and engineering, acquisition of sites, construction of buildings, renewal replacement and renovation of buildings and equipment, service station rentals paid by the oil company to others, money loaned for service station improvements, painting, maintenance, and other expenditures on service stations of whatsoever nature)

(a) total expenditures on service stations accounted for as capital expenditures (not included in question 82) \$ \_\_\_\_\_

Total marketing department expenditure for service stations.

93. What amount of the total expenditure in answer to question 92 was for:

(a) acquisition of land  
(b) service station rentals paid to others  
(c) loans and mortgages advanced to service station owners repayable by them. \$ \_\_\_\_\_

94. Divide the total expenditure for service stations shown in answer to question 92 by the automotive gasoline gallonage sold through service stations in Alberta during 1965 to express the expenditure for service stations in cents (c) per gallon of gasoline.

Service station expenditure \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

1965 automotive gasoline sales \_\_\_\_\_ gals.

95. What were the total amounts received by your company during 1965 in respect of properties in Alberta that were used for marketing, as follows:

(a) from lessees as rent for service stations \$ \_\_\_\_\_

(b) from service station owners in repayment of principal and interest on account of loans and mortgages. \$ \_\_\_\_\_

(c) from sales of service stations and other lands, buildings and improvements that were used in marketing. \$ \_\_\_\_\_

96. Divide the total rental received from Lessees as shown in answer to question 95 by the total gasoline gallonage sold through service stations operated by lessees from your oil company, to express the average rental received in cents (cents) per gallon of gasoline.

Total rent received from Lessees \$ \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

Gasoline sold through service stations operated by lessees from oil company. \_\_\_\_\_ gals.



97. What was your total marketing department expense in connection with Alberta credit cards during 1965. \$ \_\_\_\_\_

98. Divide the total expense for credit cards shown in answer to question 97.

- (a) by the total gasoline gallonage sold through service stations in Alberta, to express the expense for credit cards in cents per gallon of all gasoline sold by service stations.

Expense for credit cards \$ \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

Total service stations sales \_\_\_\_\_ gals.

- (b) By the total gasoline gallonage sold on credit cards through service stations in Alberta to express the expense for credit cards in cents per gallon of credit card sales.

Expense for credit cards \$ \_\_\_\_\_ = \_\_\_\_\_ cents per gal.

Total credit card sales \_\_\_\_\_ gals.

99. What was your total marketing department expenditure in Alberta during 1965 on bulk stations and farm dealer outlets, or relating directly or indirectly to such outlets; (including planning and marketing studies, design and engineering, acquisition of sites, construction of buildings, renewal replacement and renovation of buildings and equipment, bulk station and farm dealer outlet rentals paid by the oil company to others, money loaned for improvements to bulk stations and farm dealer outlets, painting, maintenance, and other expenditures on bulk stations and farm dealer outlets of whatsoever nature)

(a) Total expenditures on bulk stations and farm dealer outlets accounted for as capital expenditures (not included in question 82) \$ \_\_\_\_\_

(b) total expenditures on bulk stations and farm dealer outlets accounted for as current operating expenditures (included in question 82) \$ \_\_\_\_\_

total marketing department expenditures on bulk stations and farm dealer outlets \$ \_\_\_\_\_

100. What amount of the total expenditure in answer to question 99 was for:

(a) acquisition of land \$ \_\_\_\_\_

(b) rentals paid to others for bulk stations and farm dealer outlets. \$ \_\_\_\_\_

101. Estimate and allocate the total gallonage handled by bulk stations and farm dealer outlets in Alberta during 1965 as between the types of market to which such gasoline was ultimately delivered, as follows:

Type of Market to which gasoline was ultimately delivered.	Gasoline handled (in thousands of gallons)*	% of Gasoline Volume Handled.
(a) Automotive sales through service stations		
(b) Farm Sales.	_____	_____ %
(c) Industrial/Commercial Sales	_____	_____ %
Total	=====	100 %

102. What was the total assessed value of all bulk dealer stations and farm dealer stations owned by your company in Alberta at 30 December 1965.

(a) Land assessment	\$ _____
(b) Buildings and improvements assessment	\$ _____
Total assessment	\$ =====

103. Divide the total marketing department expenditure for bulk stations and farm dealer outlets shown in answer to question 99 by total gasoline gallonage handled by bulk stations and farm dealer outlets in Alberta during 1965 shown in answer to question 101, to express the expenditure for bulk stations and farm dealer outlets in cents per gallon of gasoline handled

Total expenditures on bulk stations and farm dealer outlets \_\_\_\_\_ cents  
\$ \_\_\_\_\_ = per gal.

Total gasoline handled by bulk stations and farm dealer outlets \_\_\_\_\_ gals.

TABLE 189  
QUESTIONNAIRE 17

Name of Oil Company \_\_\_\_\_

104. In respect of the total Alberta sales of gasoline by your company which were based on commercial consumer posted tank truck prices during 1965, state the total volume sold at each price as follows:

Price	Volume sold in
_____	(thousands of gallons)

Commercial consumer tank truck price or higher.

Discount up to 1-1/2 cents.

Discount over 1-1/2 to 2-1/2 cents

Discount over 2-1/2 to 3-1/2 cents.

Discount over 3-1/2 to 4-1/2 cents.

Discount over 4-1/2 to 5-1/2 cents.

Discount over 5-1/2 to 6-1/2 cents

Discount over 6-1/2 to 7-1/2 cents

Discount over 7-1/2 to 8-1/2 cents.

Discount over 8-1/2 to 9-1/2 cents.

Discount over 9-1/2 to 10-1/2 cents.

Discount over 10-1/2 cents.

Total commercial consumer sales

---

105. In respect of the total Alberta sales of gasoline by your company which were based on other consumer tank truck prices during 1965, state the total volume sold at each price as follows:

Other consumer tank truck price or higher

Discount up to 1-1/2 cents

Discount over 1-1/2 to 2-1/2 cents

Discount over 2-1/2 to 3-1/2 cents

Discount over 3-1/2 to 4-1/2 cents.

Discount over 4-1/2 to 5-1/2 cents

Discount over 5-1/2 to 6-1/2 cents

Discount over 6-1/2 to 7-1/2 cents

Discount over 7-1/2 to 8-1/2 cents

Discount over 8-1/2 to 9-1/2 cents

Discount over 9-1/2 to 10-1/2 cents

Discount over 10-1/2 cents

Total other customer sales.

106. State the net prices in cents per gal. , that were paid by or charged to the marketing division of your oil company during 1965 for each acquisition of gasoline to be distributed in Alberta, in whole or in part, whether acquired from refineries belonging to your company or otherwise:-

Volume (thousands of gals.)	Grade	Net price in cents per gallon*
--------------------------------	-------	-----------------------------------

(\* Net to Vendor oil company excluding Federal Sales Tax & Alberta Road Tax.)

TABLE 190  
QUESTIONNAIRE 18

Name of Oil Company \_\_\_\_\_

107. For each refinery owned directly or indirectly by your company which normally sells part or all of its gasoline production for use in the Province of Alberta, give the following particulars:

- (a) total volume of crude oil processed by the refinery during 1965 (in thousands of barrels)
- (b) total amount paid for the total volume of crude oil processed by the refinery during 1965
- (c) average price per barrel of crude oil purchased by the refinery during 1965

108. Give particulars of the products produced by each such refinery in 1965 as follows:

Name of Products	X	Unit of Measure (gals lbs)	Total 1965 Production (thousand of units.)	Total dollar realization from disposition of each product.*	Average realization value per unit of prod.*
---------------------	---	----------------------------------	--	--	---

- X Show different grades of gasoline as different products.  
\* Net to refinery excluding Federal Sales Tax & Alberta Road Tax.

109. In the case of the gasoline produced by each such refinery during 1965, give particulars of its disposition as follows:

Volume in Thousands	%
------------------------	---

- (a) to your marketing division to supply your service stations and bulk and farm outlets handling your brand name gasoline.
- (b) To other major brand oil companies by sale, exchange or product transfer.
- (c) to wholesalers, private brand or off brand oil companies
- (d) to other f.o.b. refinery purchasers
- (e) to other classifications of purchasers (if material - give particulars)

Total gasoline production for 1965

110. For each such refinery give particulars of each disposition of gasoline during 1965 to a major oil company, as follows:

Volume of disposition (thousands of gallons)	Grade	Net price per gallon*
---	-------	--------------------------

(\* Net to refinery excluding Federal Sales Tax & Alberta Road Tax)



111. In respect of each off-brander, jobber or wholesaler for resale operating in Alberta who purchased gasoline from you during 1965 whether f.o.b. the refinery, or by tender or by a negotiated price or otherwise, give particulars as follows:

<u>Volume of Purchase</u> <u>(thousands of gals.)</u>	<u>Grade</u>	<u>Net Price</u> <u>Per gallon*</u>
--	--------------	--

(\* Net to refinery excluding Federal Sales Tax & Alberta Road Tax.)

TABLE 191  
QUESTIONNAIRE 19

Name of Oil Company \_\_\_\_\_

Your company directly or indirectly owns or controls a number of service stations. Naturally your company desires these stations to be used for the sale of your products. There appears to be three ways in which such stations are usually operated:

- (a) by a lessee who is tied by contracts to purchase products from your company; or.
  - (b) by an agent who receives a commission on products delivered to him on consignment; or
  - (c) by a salaried employee of the oil company.
112. Enumerate and explain in detail all advantages and disadvantages to your oil company that it sees in having its service stations operated by lessees. (For instance you might discuss such problems as relative costs; the possibility of labor organizing and its effect on retailing; and the significance of the contributions of lessees, in providing some operating capital for service stations, in advertising of oil company products and brands, in sharing costs of promotional programs, in paying rents or occupancy charges, in assuming risks of operating losses, theft losses and shrinkage losses, in assuming responsibility for employment of staff and related benefits, etc.)
113. Enumerate and explain in detail all advantages and disadvantages to your oil company that it sees in having its service stations operated by commission agents.
114. Enumerate and explain in detail all advantages and disadvantages to your oil company that it sees in having its service stations operated by salaried employees.
115. Assuming the following hypothetical set of facts; namely, your company owns an urban neighborhood service station on a major traffic artery in Edmonton or Calgary, with an annual gasoline volume of 200,000 gallons and a sales ratio of gasoline to other products of approximately 70 to 30, open twelve (12) hours daily, and your company operates it by hiring salaried employees:
- (a) Give the average annual salary you would expect to have to pay to attract and retain a competent operator; and  
\$ \_\_\_\_\_

(b) How many hours would you expect your salaried employee operator to work per week on the average at this station; \_\_\_\_\_ hrs.

(c) List each additional employee required as follows:-

Job classification and description of duties (pump attendant, lube man, mechanic etc.)	Average hrs. Worked per Week.	Annual Salary - or - Earnings.
--	-------------------------------	--------------------------------

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.

Employee payroll (except operator) \$ \_\_\_\_\_

(d) Calculate a statement of income and expense for your hypothetical service station, which you would regard as normal or average for such a station.

Annual gasoline sales	200,000 gals.
Open 12 hours daily	
Ratio of gasoline sales to other sales	70/30

<u>Gasoline Sales</u>	<u>% of total sales.</u>
-----------------------	--------------------------

Gasoline Sales	\$	70%
Cost of Gasoline	\$	
Gross profit on Gasoline Sales	\$	\$ _____

Other Sales

Motor Oils	\$
Lubricants	\$

Tires, Batteries, Accessories and Parts.	\$	%
--	----	---

Labor & Service	\$	%
-----------------	----	---

Total other sales	\$	30 %
-------------------	----	------

Cost of Merchandise sold

Gross profit on other sales	\$ _____	\$ _____
		Gross Profit \$ _____

Annual Expenses:

Operators salary	\$ _____
Employee payroll (except operator)	_____
Heat, light & power	_____
Half-ton truck	_____
Maintenance	_____
Accounting & Misc.	_____
Occupancy cost (depreciation & taxes)	_____
Total Expense	\$ _____

116. If your company operated all the service stations which it directly or indirectly owns or controls by using salaried employees, rather than lessees, in the opinion of your company would the cost of retailing gasoline be increased, decreased or be approximately the same? Outline and explain in detail your reasons for your conclusions.

TABLE 192  
QUESTIONNAIRE 20

Name of Oil Company \_\_\_\_\_

- No. 117 In the case of each service station in Alberta owned or controlled by your company (or by a subsidiary, associated, related or affiliated company) in which the operator was directly or indirectly a salaried employee of your company during any part of 1965, please prepare

Employee Operated Service Station Report.

Name of Oil Company \_\_\_\_\_

1. Name of station \_\_\_\_\_

2. Complete address of service station:

(a) Street address and town or city \_\_\_\_\_

(b) Legal description (if no street address) \_\_\_\_\_

(c) Highway No. (if any) \_\_\_\_\_

3. List the following particulars about each employee who was employed as operator of the station at any time during the period 1961-1965, inclusive;

Operator's Name	Period of Operation		If still employed by oil co. give job description & title.
	from (mo/yr)	to (mo/yr)	
_____	_____	_____	_____

4. On the average, how many hours per week would the operator of this station work? \_\_\_\_\_ hrs.

5. Give particulars of the formal education and training of the salaried employee who operated this station during 1965 (if more than one, select the one who was in this capacity the longest), hereinafter called the 1965 operator.

Academic  
Technical  
Trade  
and Other

6. describe the 1965 Operator's Previous Employment with your company:

<u>Job Description</u>	<u>Years</u>
------------------------	--------------

7. What training has oil company provided to the 1965 operator?

8. During what hours was the station open during 1965?

9. List each employee employed in this service station during 1965 as follows:

Job classification and description of duties (operator, pump attendant, lube man, mechanic etc.)	Average Hours Worked per week	Total 1965 Salary or Earnings.
--	-------------------------------	--------------------------------

Operator

10. During hours when the operator is normally absent which employee is normally in charge of station?

11. What was the annual gallonage of this station in each of the following years?

1965	1964	1963	1962	1961
------	------	------	------	------

12. In any case where the oil company leases the service station from another landlord:

(a) State the amount of rent paid by the oil company for the service station in each of the years:

1965	1964	1963	1962	1961
------	------	------	------	------

(b) State whether landlord is a subsidiary, associated, related or affiliated company

YES	NO
<input type="checkbox"/>	<input type="checkbox"/>

13. In the case of a service station owned by the oil company, give the following particulars:



- (a) 1965 Land Assessment
- (b) Oil company best estimate of current market value of site alone.
- (c) 1965 assessed value of improvements
- (d) Amount of insurance on buildings and equipment (if necessary)
- (e) State oil company best estimate of present market value of station including lands, buildings, and equipment for use as a service station.

14. State for this station during 1965.

The number of pumps

The number of bays.

15. Give particulars of sales at this station during 1965 as follows:

Name of Product Sold	1965 \$ Volume of Product Sold	% of Total Sales.
Gasoline		
Motor Oils		
Lubricants		
Tires, batteries, accessories and parts		
Labor and service		
Other sales (specify)		
Total sales		100%

16. Give particulars of gross profit from gasoline sales as follows:

Grade of Gasoline	1965 volume in gals.	Retail mark-up cents per gal.*	Gross Profit on gasoline
----------------------	-------------------------	-----------------------------------	-----------------------------

Gross profit on gasoline sales  
\$ \_\_\_\_\_

(\* Retail mark-up on difference between retail price and dealer posted tank wagon price.)

17. Give particulars of gross profit from all sales other than gasoline during 1965 as follows:

Gross sales other than gasoline	\$ _____
Cost of merchandise sold	\$ _____
Gross profit on other sales	\$ _____

18. Give particulars of the expenses for operating this station during 1965 as follows:

Operator's salary \$ \_\_\_\_\_

Employee payroll (except operator)	\$ _____
Heat, light and power	\$ _____
Truck or other vehicles	\$ _____
Maintenance	\$ _____
Accounting and miscellaneous	\$ _____
Occupancy costs (rent paid to owner or (depreciation and taxes)	\$ _____
Other expenses	\$ _____
Total expenses	\$ _____

19. Divide the total expense of operating this service station during 1965 by the gasoline gallonage sold through the service station during 1965 to express the cost of retailing through that station in cents per gallon of gasoline.

Expenses for 1965 \$ \_\_\_\_\_ = cents per gal.  
 1965 gasoline sales \_\_\_\_\_ gals

TABLE 193  
QUESTIONNAIRE 21

Name of Oil Company \_\_\_\_\_

118. For each separate sale of regular (grade 2) gasoline to each commercial consumer who purchased from your company in Alberta during the months of June and December in 1965 at a discount below the posted commercial consumer tank truck price for the place of delivery, give particulars of such sales as follows:

Description or classification of purchaser (government, con- struction company, transport company, truck company, taxi aviation, manufacturer, etc.	Volume of sales (Thou- sands of gallons.)	Discount in cents per gal. (below posted pr. for place of delivery	Actual price paid per gal.	Net Real- ized by Oil Co. cents per gal.*

(\* Net to oil company (a) excluding Federal Sales Tax & Alberta Road Tax; and  
 (b) excluding transportation and marketing expense differentials from refinery to place of delivery to customers)

TABLE 194  
QUESTIONNAIRE 22

Name of the Oil Company \_\_\_\_\_

119 State the production of your company during 1965 of each of the following:

	<u>Quantity</u>	<u>Unit of Measure</u>	<u>-----\$ Value-----</u>
(a) Crude oil and condensate		bbls.	
(b) Natural gas liquids		bbls.	
(c) Natural gas		MCF	
(d) Sulphur		Long tons	

120. State your estimate of the reserves of your company as of 31 December 1965 of each of the following:

	<u>-----Quantity-----</u>	<u>Unit of Measure</u>
(a) Proved reserves of crude oil and condensate		bbls.
(b) Established reserves of Natural gas liquids		bbls.
(c) Established reserves of Natural gas		MCF
(d) Established reserves of sulphur		Long tons

121. If your company is a member of a family of companies and it has subsidiary, associated, related or affiliated companies with production or reserves in Alberta, or your parent company has subsidiary, associated, related, or affiliated companies with production or reserves in Alberta, please obtain and provide information with respect to each such company having production or reserves in Alberta, as follows:-

(e. g. Texaco should give figures for Texaco Exploration Company and Canadian Seaboard Oil Company; Standard of British Columbia should give figures for Chevron Standard Limited; Shell should give figures for Cree Oil of Canada Limited and Anglo Canadian Oil Company (1955) Ltd., etc. etc.)

1. Name of Company \_\_\_\_\_

2. Production during 1965 of each of the following:-

	<u>-----Quantity-----</u>	<u>Unit of Measure</u>	<u>-----\$ Value-----</u>
(a) Crude oil and condensate		bbls.	
(b) Natural gas liquids		bbls	
(c) Natural gas		MCF	
(d) Sulphur		Long tons	

3. Estimate of reserves as of 31 December 1965.

	<u>Quantity</u>	<u>Unit of Measure</u>
(a) Proved reserves of crude oil and condensate		bbls.
(b) Established reserves of Natural gas liquids		bbls.
(c) Established reserves Natural gas		MCF
(d) Established reserves of sulphur		Long tons

(4) Problems with Oil Company Replies

The Committee listened to the views of many persons whose familiarity and concern was only with a small segment of the oil industry.

However, the Committee confidently expected that the factual accurate data on which the conclusions of the Committee could be based would practically all be supplied by the oil companies themselves in answer to the Committee's questionnaires. The Committee considered that the oil companies would have more and better data than would be available from any other source, and this would be the best information on which conclusions could be based. If a problem was being examined, the Committee hoped that the oil company answers would shed light upon the problem and prove or disprove some proposition.

Many of the companies did a great deal of work and generously provided much useful information to the Committee. Individual executives of various companies were courteous, obliging, and as helpful as it would be possible for them to be.

However, in many cases the oil company response was disappointing to the Committee and was much less informative than the Committee had hoped.

It took longer for the oil companies to answer questionnaires than the Committee anticipated.

Our first questionnaire we regarded as a relatively easy one, as it simply enquired into numbers of outlets. Most companies replied to this questionnaire within two months, and we then thought we had firm and accurate figures. As subsequent questionnaires went out, some oil companies gave us revised figures for the first questionnaire. Seven months after the first questionnaire had gone out we had figures which differed by some hundreds of outlets from the figures which we had originally received from the companies. The final revision of numbers in this questionnaire came in in May of 1967, nearly fourteen months after the question was first asked.

The Committee had hoped to obtain data progressively. It was the Committee's expectation that after having received and analyzed the answers to preliminary general questions, it could use this general information as the basis for more specific or more detailed questions. This also proved to be impractical due to the long time interval between the question and the reply.

Questionnaire 4 sought information as to gasoline gallonage sold by the numbers and categories of outlets concerning which particulars had been obtained in questionnaire 1. This questionnaire was sent to the oil companies on May 18, 1966. Many of the oil companies took five or six months to reply. When the replies were all in, it was apparent that the numbers of outlets reported by a company in questionnaire 1 and the number of outlets reported by the same company in questionnaire 4 did not always agree. Subsequent changes made by oil companies in the answers to questionnaire 1 necessitated corresponding changes in the answers to questionnaire 4, and the Committee received revisions to questionnaire 4 as late as January of 1968, so "final" answers to this question were not available for 20 months.



Questionnaire 3 requested each oil company for the numbers of its lessees whose leases terminated for any reason. A subsequent questionnaire 8 requested particulars about individual terminations. Questionnaire 3 was sent out on May 13, 1966 and the initial replies were not all in until November of 1966, and corrections to these initial replies were received as late as February of 1967. Accordingly when the Committee sent out questionnaire 8 on the 8th of September 1966 asking for particulars of individual terminations, it did not have all the answers to questionnaire 3 indicating how many terminations there were.

As the questions of the Committee became more specific, the oil company replies took longer before they were returned. For instance, questionnaire 9 sent out on December 1st, 1966 was not replied to by all companies until June of 1967, and corrections to replies were received by the Committee as late as September of 1967, nearly ten months after the question was asked.

After waiting many months for a reply to a question the Committee was disappointed in many cases to receive uninformative answers such as "Not Available", "unavailable", "not relevant", or incomplete answers, or some questions not answered at all.

Some questions related to activities of the oil companies themselves, whereas other questions related to activities of service stations selling the oil companies' products. It was understandable in the case of questions to oil companies about their service stations that in some cases they might not have the information. It was more difficult for the Committee to understand why the oil companies did not have information relating to their own operations.

In the case of over 250 questions or parts of questions relating to oil company operations, (as distinct from service station operations) the oil companies replied with the words "Not Available", or "unavailable".

To some of the Committee's questions the reply received was "Not Relevant".

In many cases questionnaires were returned with considerable numbers of the questions not answered at all. Excluding questionnaires 8, 11, 14, and 21, in over 700 questions or parts of questions the oil companies made no entry in a place left for their reply. Three of the major marketers failed to answer approximately 20% of the questions submitted to them.

In other cases although answers were given, they were incomplete or otherwise in a form that the Committee was unable to use. For instance, the Committee wished to develop some information about the comparable value of different service stations as a basis for comparison of the rentals charged. Accordingly for each service station we requested

(a) the 1965 land assessment,

(b) the 1965 assessed value of improvements.

Assessments are made on a uniform basis throughout the province and this should provide a uniform measure for comparisons of value. To calculate the valuation of the property as determined by the assessor, you use one conversion formula for land assessment and a different conversion formula for improvements assessment, so both assessment figures are necessary for each service station. One oil company, in answering these questions about its service stations, filled in a land assessment for most stations, but in almost all cases left the space for the improvements assessment blank. In the case of some of its service stations it filled in a single figure which appeared as though it might be the total of the land and improvements assessment. In any case the data was incomplete or ambiguous to the extent that no use could be made of it by the Committee. The Committee had waited approximately five months for the reply containing this incomplete or carelessly compiled data. To provide the incomplete data the oil company had given, it had examined the assessment notice for each of its service stations on which both figures requested are shown. It extracted one figure but not the second, although separate spaces were provided on the questionnaire for each figure. To clarify the figures it had already given, it would be necessary for the oil company to check each of these assessment notices again, and the experience of the Committee indicated that a second question would not be replied to in any

less time and might not be answered much more accurately than was the case with the original question.

The Committee wished to develop information about the length of tenure of lessees who terminated. It requested the companies to prepare "Lease Termination Reports". One of the questions asked was the date the lessee commenced to operate the service station. One oil company, in almost eight out of every ten of its terminations, indicated that it did not know when its lessee commenced to operate the service station. With respect to this question, the Committee wrote to the oil company as follows:

"For instance we took it for granted that a business would have a record of of the date on which it placed the tenant in possession of its premises, because presumably about that date the tenant would enter into a lease, would execute a dealer franchise agreement and other formal documents, would pay for inventories of products and stock on hand, and would commence ordering products."

"There were a number of these reports where no commencement date was shown in answer to question 5, but a termination date was shown in answer to question 6 and the duration of his tenancy was shown in answer to question 10 of the same questionnaire."

Also the Committee pointed out that a large number of these reports were cases of multiple terminations where several persons in succession became lessees of the same station. In such cases the oil company gave termination dates for each successive lessee but not commencement dates.

The oil company reply reads in part as follows:

"We were unable to answer question 9 in most instances as this information is not available. Leases and company owned service station franchise agreements are signed concurrently and are normally for one year. Expired lease and franchise agreements are not kept on file. Similarly credit records for closed accounts are not maintained for other than a short period of time.

When we indicated the duration of tenancy under question 10 but did not answer under question 5 the former was an approximation only.

In case of multiple terminations we did not state the commencement date for the new tenant as being the same for the termination for the outgoing tenant, as this does not necessarily follow. The station could have been closed for a short period of time or an operator could have been hired until a lessee was finally installed."

This company accordingly was unable to give the Committee information which would have assisted the Committee to compile data as to the average tenure of its recently terminated lessees. However, this same company in other submissions to the Committee gave its conclusions as to the average length of time its lessees operated service stations for the company.

When the company was unable to provide the Committee with data to assist the Committee to form conclusions about tenure of lessees there may be some question as to the accuracy of the data and the validity of the conclusions reached by the company about tenure of its lessees.

As stated in the beginning, the Committee considered the best data available would be that which was supplied by oil companies. Even from this source the Committee has some misgivings about the data so obtained, and some items may not be completely accurate. However, it is the Committee's hope that the broad picture will be generally correct despite some inaccuracies in detail.

There were cases where the Committee did not succeed in communicating its intentions or desires to the oil companies. There were also cases where a company misinterpreted a question or erred in the answer.

For instance in questionnaire 9, which was sent out in December of 1966 the Committee asked in question 36(d) for each company's sales during 1965 to off-branders or wholesalers for resale. One company indicated it had no sales to off-branders and its reported sales to other purchasers accounted for 100% of its sales. In answer to question 77(d) of questionnaire 15 which went out in March of 1967 the same company again reported no sales during 1965 to off-branders. However, in reply to question 111 of questionnaire 18 which went out in May of 1967 this same company reported sales during 1965 to off-branders amounting to some tens of millions of gallons. The last answer necessarily raised some doubt as to the validity of the two earlier answers.



One company which engages in the business of buying gasoline from refineries and reselling to service stations reported the prices at which it purchased from refineries in answer to question 78 as being the same amount per gallon as the price at which it sold to service stations in answer to an earlier question. One of the questions was probably misunderstood, or answered carelessly, or in error, because the oil company makes a profit on its operations.

Question 76 of questionnaire 14 asked for gasoline gallonage sold in 1965 by each retail outlet. Some companies in error reported gallonage figures which included both gasoline and diesel.

Question 14 of questionnaire 4 requested gasoline gallonage sold by retail outlets in Alberta. One company in error inadvertently reported a gallonage figure which covered its entire prairie region rather than just the Province of Alberta. Another company reported a gallonage figure which included both gasoline and diesel, although gasoline only had been asked for. Where such errors were obvious enough to be discovered by the Committee with its limited knowledge, the oil company could explain, correct, and rationalize them.

However, the probability certainly exists that some figures supplied to the Committee by the oil companies may not be entirely accurate. It is equally possible that some answers may have been misunderstood or misinterpreted by members of the Committee. These factors were taken into account by the Committee in attempting to reach its conclusions, so in general the weight of evidence from many sources was relied upon rather than the specific answer to a single question.

No one is more aware than this Committee of the substantial deficiencies in the information we have to work with and the dangers of reaching firm conclusions from incomplete or inaccurate information. However, we tried to make clear to the oil companies what we wanted, and we tried to give them the opportunity to submit information to us and to influence us with their expert opinions on the issues before us. Those oil companies which unduly delayed their answers or omitted or neglected to give us answers, or gave us incomplete answers, or gave answers which avoided the issues the Committee was obviously attempting to learn about, should share the responsibility for any deficiencies in the information available to the Committee.

The Committee although given no deadlines was faced with the necessity of making a report within a reasonable period of time based on findings that were relatively current.

Although it was frustrating to find that it took longer than anticipated to obtain data and the data obtained was incomplete in many details, nevertheless a great deal of information was obtained and assembled from which general impressions and broad conclusions can be reasonably reached.

The Committee might have had a fuller and more accurate picture if some of the oil companies had taken more care with their replies or made a greater effort to provide the information that was obviously being sought. There are no doubt many aspects of the enquiry where more could have been accomplished if the Committee had more staff to check details or more time to reconcile various discrepancies. More questions could always be asked and better answers could always be obtained but there is a necessity at some stage to give the best answers possible with the information at hand.

#### **(5) Information from Former Operators**

As the enquiry progressed it soon became apparent that Lessee Turnover dealt with in Chapter 24 and Extinction of Privately Owned Service Stations dealt with in Chapter 26 were serious problems, concerning which more information was required. Current service station operators could only speculate as to why their predecessors had terminated. The oil companies which record very little information of any kind about service station operators could not provide us with authentic information as to the reasons for termination.

The oil companies in submitting their "Service Station Lease Termination Reports" in answer to oil company questionnaire 8, quite frankly admitted that their records respecting termination were incomplete and unreliable.

Accordingly the Committee considered that the best possible information available would be that which former operators could provide.

We accordingly prepared a questionnaire to be answered by former operators consisting of 50 questions as set out in Table 195. We used some of our most experienced interviewers who had previously been engaged on the questionnaire submitted to service station operators to conduct interviews with a fairly large sample of former operators, most of whom were from urban stations in either Calgary or Edmonton. In many of such cases we already had considerable information about the station by reason of an interview with a current operator which enabled us to form an opinion about the accuracy of the former operator's recollections.

In general, former operators appeared to have very clear recollections which was particularly true when dealing with the circumstances of their termination and their reasons for termination.



TABLE 195

Province of Alberta

GASOLINE MARKETING ENQUIRY

STRICTLY CONFIDENTIAL INFORMATION

From Service Stations  
(Former Operators)

The purpose of this interview is to obtain factual information about service station operations, and to determine the nature and extent of any problems which may exist in the marketing of gasoline and related products and services to the motoring public.

All information you give is strictly confidential.

A summary of information from these questionnaires may be included in the report of our enquiry to the Government of Alberta, but the report will in no way identify any individual operator or station.

Kenneth A. McKenzie, Q.C., Edmonton - Chairman

Arthur Fitzpatrick, P.Eng., Edmonton

Allan N. Rose, Calgary

FORMER OPERATORS

1. Name of person interviewed:

Address:

Presently employed as:

2. Name of Station:

Location: (a) Street address:

(b) Town or City:

(c) Legal description (if no street address):

(d) Highway Number (if any):

3. Brand of gasoline:

4. Previous Occupations: (a) \_\_\_\_\_ years  
(b) \_\_\_\_\_ years

5. Why did you decide to lease this particular station?

6. What information did you have about this station before you decided to lease it?

7. How accurate did this information prove to be?

8. How much education and training did you have:

(a) Academic

(b) Trade

(c) Technical

(d) Oil Company training

(e) Other

9. (a) Average weekly hours of work:

(b) Did your wife work in the business? Yes ☐  
No ☐

If yes, how many hours per week?

(c) Average weekly hours of work in present employment?

10. How was station held: (a) leased from oil company ☐  
(b) owned by operator ☐  
(c) leased from other than oil company ☐

11. Primary category of outlet:

(a) ordinary service station ☐

(b) Highway service station ☐

(c) other ☐

12. Description of station: (a) Lot size  
(b) Building size  
(c) Number of islands  
(d) Number of hoses  
(e) Number of bays

13. With how many stations were you in competition?

14. Could fewer stations have handled the gas and services required by the public in the area in which you competed? Yes ☐ No ☐

If yes, Estimate how many of these stations could close without reducing the quality of service available to individual customers.

15. Complete Appendix Form 29-31 and Desirability Factors form on station and Operator.
16. Hours of Operation: (a) Weekdays \_\_\_\_\_ to \_\_\_\_\_  
(b) Sundays \_\_\_\_\_ to \_\_\_\_\_  
(c) 24 hours \_\_\_\_\_
17. Did your oil company ever ask you to change your hours of operation?  
Increase Yes ☐ No ☐  
Decrease Yes ☐ No ☐
18. Were you asked to provide financial statements to your oil company?  
Yes ☐ No ☐  
Did you? Yes ☐ No ☐
19. If yes, Did oil company give a reason for asking for statement?
20. Were you on commission consignment? Yes ☐ No ☐
21. Did you object to commission consignment?  
Yes ☐ No ☐
22. What was your profit on gasoline (per gallon)?  
(a) On consignment (cents per gallon)  
(b) Before consignment (cents per gallon)
23. What was your profit on diesel?  
(a) On consignment (cents per gallon)  
(b) Before consignment (cents per gallon)
24. When did you lease the station?
25. When was the lease terminated?
26. Time in this outlet: Years \_\_\_\_\_ Months \_\_\_\_\_
27. By whom was the lease terminated?  
By oil company \_\_\_\_\_ By operator \_\_\_\_\_
28. How much money did you invest in your business?  
(a) Original investment  
(b) Additional investment  
(c) Total  
(d) Liabilities  
(e) Balance
29. Did the oil company from whom you were leasing loan you money to help you to establish in business? Yes ☐ No ☐  
If yes, How much?
30. How was this credit secured?
31. How did you dispose of your stock and equipment on termination?
32. To whom was it sold?

33. How did you arrive at the value of your stock and equipment?
34. Amount of money realized on termination of lease: \$ \_\_\_\_\_
35. How did this compare with your idea of value of your stock and equipment?  
 More ☐ ↑ By how much?  
 Less ☐
36. Gallonage figures for: (a) First year of operation:  
 (b) Final year of operation:
37. Total sales for: (a) First year of operation:  
 (b) Final year of operation:
38. Net income: (a) First year of operation:  
 (b) Final year of operation:  
 (c) Present income:
39. As a service station operator were you satisfied with your net income?  
 Yes ☐ No ☐
40. What rental changes did you experience? (Specify)
41. Rent: (a) At commencement of lease:  
 (b) At termination of lease:
42. Did your oil company offer, on termination, to assist you to re-establish in another station:  
 Yes ☐ No ☐
43. Did your oil company assist you to dispose of your stock and equipment?  
 Yes ☐ No ☐
44. What was the reason given to you by the oil company for termination of your lease?
45. What were your reasons for termination?
46. Could any of the following problems be considered as reasons for your termination?
- |                                 | Yes                      | No                       |
|---------------------------------|--------------------------|--------------------------|
| (a) T.B.A. pricing              | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) Discounting                 | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) Rental problems             | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) Help                        | <input type="checkbox"/> | <input type="checkbox"/> |
| (e) Low income                  | <input type="checkbox"/> | <input type="checkbox"/> |
| (f) Commission Consignment      | <input type="checkbox"/> | <input type="checkbox"/> |
| (g) Long hours                  | <input type="checkbox"/> | <input type="checkbox"/> |
| (h) Wrong brand                 | <input type="checkbox"/> | <input type="checkbox"/> |
| (i) Site                        | <input type="checkbox"/> | <input type="checkbox"/> |
| (j) Traffic flow                | <input type="checkbox"/> | <input type="checkbox"/> |
| (k) Lack of business experience | <input type="checkbox"/> | <input type="checkbox"/> |
| (l) Disaster                    | <input type="checkbox"/> | <input type="checkbox"/> |
47. If yes, Give particulars in each case.
48. Do you feel that you were undercapitalized? Yes ☐ No ☐
49. Approximate age of operator:
50. Interviewer's comments re termination, station and operator.



## **(6) Service Station History Cards**

The Committee accumulated information relating to a service station from a number of sources.

The service station questionnaire provided detailed information relating to 572 outlets each of which had been inspected, the operator interviewed, the books examined, and a questionnaire consisting of 106 questions largely completed.

For some stations we had a "service station closure report" prepared by an oil company in answer to questionnaire 6.

We received from the oil companies "service station lease termination reports" covering hundreds of terminations between the years 1961 and 1965 and for the calendar year 1967.

In the case of each service station which was occupied by a lessee from an oil company during 1965, we received a "Service Station Rental Report" containing the answers to 15 questions about the station and its business.

We received from the oil companies in answer to questionnaire 14 particulars of the name, the address, and the 1965 gallonage of each retail outlet in the province (other than lessees concerning whom we had already obtained the information).

In respect of some service stations we might have one or more interviews with former operators of that outlet.

It was obviously desirable to correlate the information from various sources about a particular service station.

Accordingly for each service station in the province we prepared a Service Station History Card. On some cards we have information from only one source. However there are other cards which disclose very complete information about an outlet derived from an interview with a current operator, a "Service Station Rental Report" prepared by the oil company, one or more service station lease termination reports prepared by the oil company, and interviews with one or more former operators.

The processing and compilation of the data we obtained was a large task in itself. For instance, 572 service station questionnaires containing answers to as many as 106 questions each, by itself accounts for a few hundred thousand answers. To be able to extract information about particular classifications of service stations and to do comparisons of various kinds, a great deal of our information was programmed on a computer which facilitated the handling of our data.

## **(7) Information from Bulk Stations**

In 1965, oil companies had 1,140 bulk agents and farm dealers scattered throughout Alberta. They market gasoline and petroleum products to two of the basic markets namely — farm consumers, and smaller commercial consumers.

The Committee followed the same procedure to obtain information about bulk agents and farm dealers as it followed in the case of service station operators. We prepared a Bulk Station Questionnaire consisting of 61 questions shown in Table 196. Our interviewers called on a representative number of bulk stations which were geographically distributed in various areas of the province and obtained completion of a number of such questionnaires.

We prepared oil company questionnaire 10 containing 14 questions relating to bulk outlets which were replied to by the oil companies.

TABLE 196

Province of Alberta  
GASOLINE MARKETING ENQUIRY  
STRICTLY CONFIDENTIAL INFORMATION  
from BULK Stations

The purpose of this interview is to obtain factual information about BULK station operations, and to determine the nature and extent of any problems which may exist in the marketing of gasoline and related products.

All information you give is strictly confidential.

A summary of information from these questionnaires may be included in the report of our enquiry to the Government of Alberta, but the report will in no way identify any individual operator or station.

Kenneth A. McKenzie, Q.C., Edmonton - Chairman

Arthur Fitzpatrick, P.Eng., Edmonton

Allan N. Rose, Calgary

PART 1

INTRODUCTORY QUESTIONS

1. Name of Station

Address

2. Brand of gasoline sold

PERSONAL PARTICULARS AND OPINIONS

3. Name of person interviewed

4. Position of person interviewed: ☒ Owner ☐  
Lessee ☐  
Manager ☐  
Commission Agent ☐

5. How long have you been in charge of this station? years.

6. What did you do previously?  
Occupation Years

7. Why did you decide to (buy, lease, manage) this particular station?

8. What information did you have about this station before you decided to (buy, lease, manage)?

9. How accurate did this information prove to be?

10. How much education and training do you have?  
Academic  
Trade  
Technical  
Other

DESCRIPTION OF OUTLET

11. How station is held: (a) leased from oil company ☐  
(b) owned by operator ☐  
(c) leased from other than oil company (specify) ☐  
(d) owned by oil company and operated by employee ☐  
(e) other (specify) ☐  
(f) Consignment Bulk station ☐

12. Category of outlet: (a) Wholesale bulk distributor ☐  
(b) Farm distributor ☐  
(c) Bulk outlet with retail pumps ☐  
(d) Other (specify) ☐

13. What was your gallonage last year?  
(a) Assigned (retail) accounts gallons  
(b) Contract or Industrial accounts gallons  
(c) Farm accounts gallons

TOTAL gallons

14. With how many stations are you in direct competition?
15. Could fewer stations handle the gas and services required by the public in the area in which you compete? Yes ☐ No ☐

If yes, Estimate how many of these stations could close without reducing the quality of service available to individual customers.

16. Do you have a defined sales area? Yes ☐ No ☐
17. Do you supply gasoline to all of your brand service stations in your area? Yes ☐ No ☐

18. Pricing: #1 #2  
Purple Purple Amber Red Diesel Stove  
Assigned (retail) accounts  
Commercial or Industrial accounts  
Farm Accounts

19. What is your profit or commission on the following products:  
#1 #2 Red  
Purple Amber Diesel Stove  
Assigned (retail) accounts  
Contract or Industrial accounts  
Farm Accounts

20. What shrinkage allowance does the Oil Company grant to you?

21. Is this adequate? Yes ☐ No ☐ Not sure ☐

If no, What should your shrinkage allowance be?

22. Who is responsible for credit? (a) Assigned (retail) accounts  
(b) Contract or Industrial accounts  
(c) Farm accounts

23. How is credit secured?

24. Is your lease: (a) month to month ☐  
(b) year to year ☐  
(c) longer (specify) ☐

25. At what notice can your lease be terminated?
- |                     | <u>By oil company or landlord</u> | <u>By you</u>            |
|---------------------|-----------------------------------|--------------------------|
| (a) 24 hours        | <input type="checkbox"/>          | <input type="checkbox"/> |
| (b) 7 days          | <input type="checkbox"/>          | <input type="checkbox"/> |
| (c) 10 days         | <input type="checkbox"/>          | <input type="checkbox"/> |
| (d) 15 days         | <input type="checkbox"/>          | <input type="checkbox"/> |
| (e) 30 days         | <input type="checkbox"/>          | <input type="checkbox"/> |
| (f) Other (specify) | <input type="checkbox"/>          | <input type="checkbox"/> |

26. Have you borrowed money from the oil company that supplies your gasoline? Yes ☐ No ☐



27. Has your oil company assisted you to purchase equipment?  
Yes ☐ No ☐
28. Was any of the credit extended to you by your oil company secured by:
- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| (a) a land mortgage  | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) a chattel mortgage   | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) an undertaking from you to buy one or more products of the oil company | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) any other undertaking (specify)  | <input type="checkbox"/> | <input type="checkbox"/> |
29. How much do you owe your oil company now? On equipment:  
For gas and oil:
30. Have you the right to prepay the indebtedness in full whenever you wish?  
Yes ☐ No ☐
31. Have you been asked to provide financial statements to your oil company?  
Yes ☐ No ☐
- Do you? Yes ☐ No ☐
32. About what percentage of your gasoline business is handled with:  
Cash  
Charge accounts
33. What does it cost you, per gallon, to handle the gasoline that you deliver to:  
(a) Assigned commercial accounts  
(b) Contract accounts
34. What is the present value of equipment you own and use in your business?
35. If you were to leave the bulk oil business what could you realize if you sold this equipment?
36. To whom could you sell it?
37. What is the face value of your Accounts Receivable?
38. In actual cash, how much are these Accounts Receivable worth?
39. How much have you "written off" your Accounts Receivable as bad debts in  
1965      1964      1963      1962      1961
40. How much of this have you collected?  
1965      1964      1963      1962      1961
41. How old are your Accounts Receivable?
- |                       |         |
|-----------------------|---------|
| Less than 30 days old | _____ % |
| 30 to 90 days old     | _____ % |
| 90 days to 1 year old | _____ % |
| Over 1 year old       | _____ % |
42. What is the highest total amount of credit that you have ever extended to your customers?
43. What rate of interest do you charge on Accounts Receivable?  
Nil \_\_\_\_\_ %
44. What is the largest amount of credit ever extended to you by your oil company?

45. Did your oil company charge you interest on this money?  
Yes ☐ No ☐

If yes, at what rate?

PROBLEMS AND SOLUTIONS

- 46. In general, what are the biggest problems facing your bulk station today?
- 47. Specify problems in order of importance.
- 48. In general, what are the biggest problems facing the bulk station business?
- 49. What solutions do you suggest for these problems?
- 50. General observations by Interviewer.

P & L Statement for the \_\_\_\_\_ month period ending \_\_\_\_\_ 196 \_\_\_\_\_

- 51. Total Assets:      (a) Cash on hand and in the bank  
                              (b) Accounts Receivable  
                              (c) Other Assets  

TOTAL
- 52. Total Liabilities:
- 53. Current Equity
- 54. Original Equity
- 55. Total sales or commissions
- 56. Cost of sales, if any
- 57. Gross Profit
- 58. Total Expenses  
    List Expenses: Depreciation  
                          Wages  
                          Bad debts written off  
                          Allowance for bad debts
- 59. Net Profit
- 60. Drawings
- 61. Profit after drawings

## **(8) Other Submissions**

The Committee did not conduct formal public hearings. Much of the information we needed to learn had to come from service station operators, bulk operators and former operators. We considered we would obtain more information from such people by personal interviews in the familiarity of their accustomed surroundings than we would by formal sworn testimony in public hearings. It was the experience in British Columbia that such persons were reluctant to volunteer themselves as witnesses for cross examination in formal public hearings.

So far as information from oil companies was concerned, it was considered that much of this would take time to compile and that the replies from written questionnaires which they had ample time to consider would also be more satisfactory and informative than testimony produced in formal proceedings. We considered that the oil companies might be less reluctant to provide information for our private benefit than they would be if such information was all to be subject to scrutiny and cross examination by their competitors and others and was exposed to the publicity which normally accompanies public hearings.

In our interviews with the oil companies we indicated that we would welcome any submissions they chose to make to supplement their replies to our questionnaires.

In September of 1966 Imperial Oil Limited presented a brief to us which was very helpful and was very greatly appreciated.

From time to time throughout the enquiry as problems arose we had the benefit of informative discussions with and advice from officials of Imperial, B.A., and other companies.

Throughout the enquiry we also met on various occasions to hear representations from the Directors of the A.R.A. This association and its competent Secretary-Manager provided us with information and with assistance on numerous occasions. They put forth the utmost efforts to assist in every way they could, and we are indebted to them for their contributions.

We received submissions from The Alberta Motor Association, and the Consumers' Association of Canada.

We have consulted with and been assisted by members of various faculties at the University of Alberta, the Oil & Gas Conservation Board, the Research Council of Alberta, and various departments of government including the Department of Highways, the Department of Mines & Minerals, the Department of Industry and Tourism, the Licensing Branch, and the Alberta Bureau of Statistics, to mention a few.

The Committee was fortunate in having the assistance of many competent persons who were on its staff from time to time during the course of the enquiry. Without exception they were keenly interested in the particular aspect of the enquiry in which they were involved and their several contributions have been immensely helpful to the Committee in its sizeable task.

To those many people who have assisted us, whether from government or from industry, or from our own staff we express our appreciation.













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